

**CITY OF GLADSTONE, MICHIGAN**

**BASIC FINANCIAL STATEMENTS**

**MARCH 31, 2016**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Mayor and Members  
Of the City Commission  
City of Gladstone, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Gladstone, Michigan's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan, as of March 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and the schedule of funding progress for the retirement system and other post-employment benefits, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gladstone's basic financial statements. The combining nonmajor fund financial statements and schedule of operating statistics, are presented for purposes of additional analysis and are also not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2016, on our consideration of the City of Gladstone's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Gladstone, Michigan's internal control over financial reporting and compliance.

*Anderson, Tackman & Company P.C.*

Anderson, Tackman & Company, PLC  
Escanaba, Michigan

September 23, 2016

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Gladstone's financial performance provides an overview of the City's financial activities for the fiscal year ending March 31, 2016. Please read it in conjunction with the City's financial statements, which begin on page 15.

### FINANCIAL HIGHLIGHTS

- The City's net position was reported at \$15,839,276. Net position increased \$881,326 from March 31, 2015. However, this was offset by a prior period adjustment to record net pension liability in the amount of \$6,115,490. Net position for our business-type activities was \$11,797,853, a decrease of \$1,553,772 from 2015, while net position in our governmental activities were \$4,041,423, a decrease of \$3,680,392.
- The City's expenses for the year totaled \$9,741,781 a decrease of \$206,812 over 2015. Revenue from all sources was \$10,623,107, a decrease of \$11,451 from 2015.
- In the City's business-type activities, total revenues were \$6,172,922 an increase of 7.8% over the previous year. Business-type activity revenues remained stable as a percentage of total revenues at 58% for 2016 and 2015.
- In 2015 the City received a distribution from the Dr. Mary Cretens Trust in the amount of \$175,297, which was budgeted for expenditure in the 2016 fiscal year. In 2016 the City received \$179,333 from the Trust which was budgeted for expenditure in the 2017 fiscal year.
- The General Fund finished the year with an increase in fund balance of \$213,913 and an ending fund balance of \$908,997. This was after revenues of \$2,895,045 compared to \$2,558,108 in 2015, and expenditures of \$3,142,082 compared to expenditures of \$3,129,054 in 2015, exclusive of other financing sources and uses.

### USING THIS REPORT

This annual report consists of financial statements. The Statement of Net Position and Statement of Activities (on pages 15 and 16) provide information about the activities of the City as a whole and present a longer term view of the City's finances. Fund financial statements start on page 17. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of government.

## **Reporting the City as a whole**

### **Statement of Net Position and the Statement of Activities**

Our analysis of the City as a whole begins on page 6. One of the most important questions asked about a city's finances is "Is the City as a whole better off or in worse condition as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net position* and changes in them. You can think of the City's net position as, the difference between assets and liabilities, as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into two categories of activities:

- Governmental activities – Most of the City's basic services are reported here including public safety, public works, parks and recreation and general administration. Property taxes, state shared revenues, charges for services and state and federal grants fund the majority of these activities.
- Business-type activities – The City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City's Water, Wastewater, Electrical Departments, Solid Waste, Harbor and Economic Development Corporation are reported here.

The City also presents the Gladstone Housing Commission, a legally separate component unit, separately from the financial information of the City. A separately audited financial statement is available for the Housing Commission from their administrative offices.

## **Reporting the City's Most Significant Funds**

### **Fund Financial Statements**

Our analysis of the City's Major Funds begins on page 10. The fund financial statements begin on page 17 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law, and by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that the Commission is meeting legal requirements for certain taxes, grants and other money (such as grants received from the U.S. Department of Housing and Urban development). The City's two kinds of funds *governmental* and *proprietary* – use different accounting methods.

- *Governmental funds* – Most of the City’s services are reported in governmental funds which focus on how money flows into and out of those funds and the balances that are left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term* view of the City’s general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.
- *Proprietary funds* - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City’s enterprise funds (a component of proprietary funds) are the same as the business-type activities that we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for other City programs and activities – such as the Equipment Fund.

### **The City as a Trustee**

The City is the trustee, *or fiduciary*, of tax receipts that are collected for other agencies and held for periodic payment to those agencies. The City’s fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 27. We exclude these funds from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.



## The City as a Whole

The City's combined net position increased by \$881,326 before prior period adjustment.

**Table 1**  
**Net Position**

	Governmental Activities		Business-Type Activities	
	2016	2015	2016	2015
Current and other assets	\$ 2,431,664	\$ 1,861,320	\$ 6,722,055	\$ 6,896,607
Capital assets (net)	7,238,187	6,997,581	8,629,298	8,325,731
Total Assets	<u>\$ 9,669,851</u>	<u>\$ 8,858,901</u>	<u>\$ 15,351,353</u>	<u>\$ 15,222,338</u>
Deferred outflow-pension	<u>\$ 416,316</u>	<u>\$ -</u>	<u>\$ 176,558</u>	<u>\$ -</u>
Long-term debt outstanding	-	171,126	690,718	1,097,403
Other liabilities	6,044,744	965,960	3,039,340	773,310
Total Liabilities	<u>\$ 6,044,744</u>	<u>\$ 1,137,086</u>	<u>\$ 3,730,058</u>	<u>\$ 1,870,713</u>
Net Position:				
Net investment in capital assets	7,238,187	6,826,455	7,938,580	7,228,328
Restricted:				
Expendable	1,021,198	900,989	-	-
Nonexpendable	265,087	260,527	-	-
Unrestricted	(4,483,049)	(266,156)	3,859,273	6,123,297
Total net position	<u>\$ 4,041,423</u>	<u>\$ 7,721,815</u>	<u>\$ 11,797,853</u>	<u>\$ 13,351,625</u>

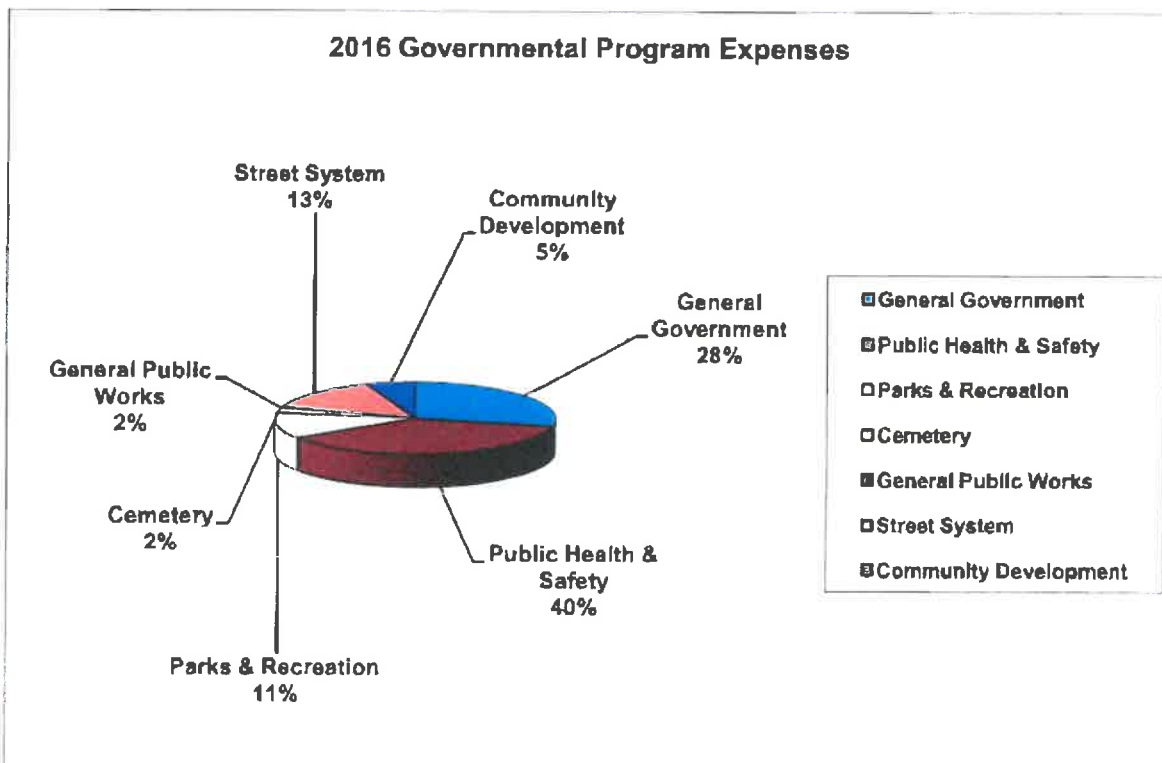
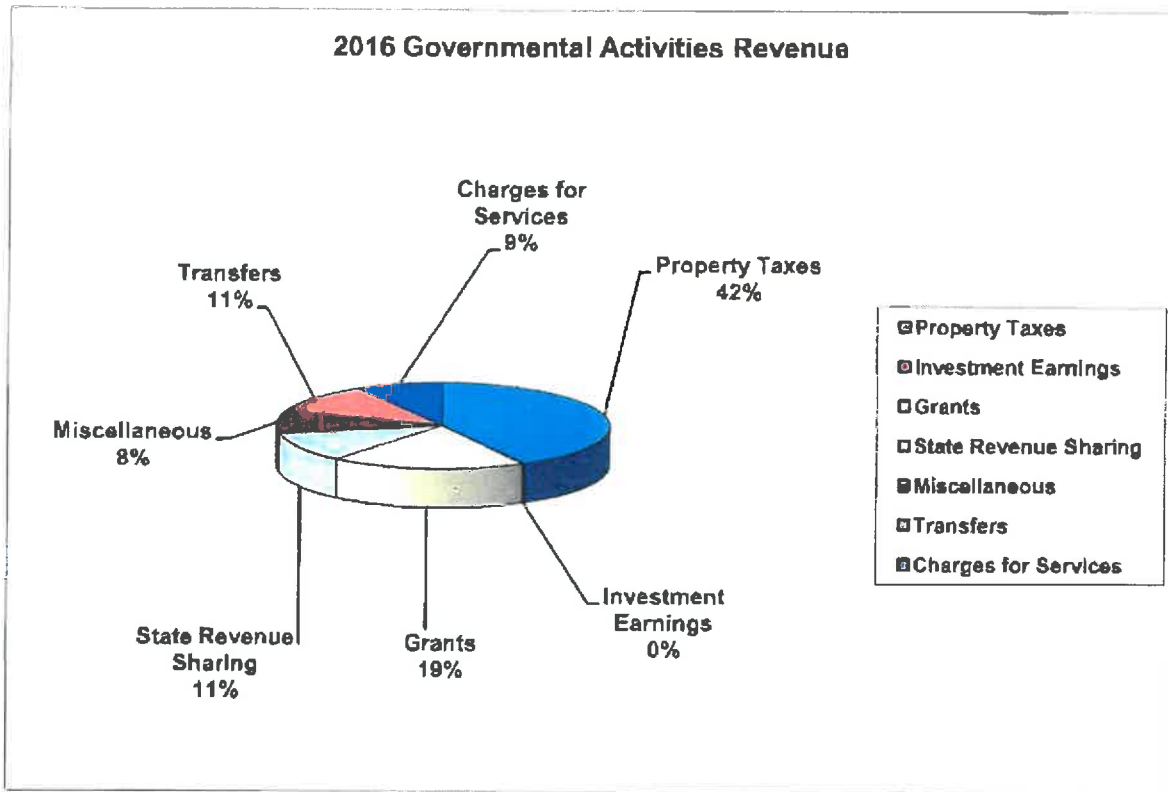
Net position of the City's governmental activities stood at \$4,041,423, up from \$3,427,518 in 2015 after prior period adjustment (+17.9%). Total of the governmental activities assets increased by 9.1%, and total liabilities increased by 431.6%. The significant increase in total liabilities is due to the implementation of GASB 68 and the recording of a net pension liability of \$5,077,034. The ratio of assets to liabilities decreased from 7.79 in 2015 to 1.60 in 2016. Without the net pension liability liabilities would have decreased by \$169,376 due to a forgiveness of debt from the electric fund in the sum of \$171,126.

Net position in our business-type activities stood at \$11,797,853, up from \$11,530,432 in 2015 after prior period adjustment (+2.3%). Total assets increased to \$15,351,353 from \$15,222,338 in 2015, while liabilities increased from \$1,870,713 in 2015 to \$3,730,058 in 2016. The significant increase in total liabilities is due to the implementation of GASB 68 and the recording of a net pension liability of \$2,153,150. Unrestricted net position decreased from \$6,123,297 to \$3,859,273, while the amount invested in capital assets (net of related debt) increased slightly from \$7,228,328 in 2015 to \$7,938,580 in 2016. In summary, the net position of the business lines became less liquid, but investments in infrastructure will pay dividends in the future.

**Table 2**  
**Changes in Net Position**

	Governmental Activities		Business-Type Activities	
	2016	2015	2016	2015
<b>Revenues:</b>				
Program Revenues:				
Charges for services	\$ 378,715	\$ 763,365	\$ 6,298,608	\$ 6,661,557
Operating grants	586,993	525,087	-	-
Capital grants	253,000	40,000	325,841	14,997
General Revenues:				
Property taxes	1,858,769	1,896,539	-	-
State revenue sharing	486,257	494,359	-	-
Unrestricted grants	5,466	5,303	-	-
Unrestricted investment earnings	6,094	8,706	41,810	63,684
Miscellaneous	376,719	156,935	-	-
Total Revenues	<u>3,952,013</u>	<u>3,890,294</u>	<u>6,666,259</u>	<u>6,740,238</u>
<b>Program Expenses:</b>				
General government	1,070,130	855,145	-	-
Public health & safety	1,528,456	1,646,077	-	-
Parks & recreation	405,652	602,819	-	-
Cemetery	73,211	114,155	-	-
General public works	64,821	98,574	-	-
Street system	494,478	587,573	-	-
Community development	199,532	122,646	-	-
Interest on long-term debt	-	3,013	-	-
Electric	-	-	3,992,200	3,819,250
Wastewater	-	-	695,924	900,798
Water	-	-	692,833	770,638
Solid waste	-	-	457,121	355,195
Harbor	-	-	57,296	61,975
Economic development	-	-	10,127	10,735
Total Expenses	<u>3,836,280</u>	<u>4,030,002</u>	<u>5,905,501</u>	<u>5,918,591</u>
Excess (deficiency) before transfers and contributions	115,733	(139,708)	760,758	821,647
Transfers	493,337	615,574	(493,337)	(615,574)
Contributions to permanent fund	4,835	4,026	-	-
Increase (decrease) in net assets	<u>613,905</u>	<u>479,892</u>	<u>267,421</u>	<u>206,073</u>
Net position - beginning	7,721,815	7,241,923	13,351,625	13,145,552
Prior period adjustment	(4,294,297)	-	(1,821,193)	-
Net position - beginning, as restated	<u>3,427,518</u>	<u>7,241,923</u>	<u>11,530,432</u>	<u>13,145,552</u>
Net position - ending	<u>\$ 4,041,423</u>	<u>\$ 7,721,815</u>	<u>\$ 11,797,853</u>	<u>\$ 13,351,625</u>

## Governmental Activities



The City's total revenues were \$10,623,107, down slightly from \$10,634,558 in 2015. The cost of all programs and services was \$9,741,781, down from \$9,948,593 in 2015 (a decrease of 2.0%). For 2016, there was an overall excess of revenues over expenses of \$881,326, compared to \$685,965 in 2015.

### Governmental Activities

Revenues for the City's governmental activities totaled \$4,450,185, up 1.3% from \$4,509,894 in 2015. Expenses decreased by 4.8% or \$193,722 in 2016 as compared to 2015.

Table three below reflects the cost of each of the City's five largest activities; Public Safety, Street Systems, Parks and Recreation, Public works, and General Government- as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

**Table 3**  
**Government Activities**

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Public health & safety	\$ 1,528,456	\$ 1,646,077	\$ 1,486,816	\$ 1,188,261
Street systems	494,478	587,573	(75,185)	67,375
Parks & recreation	405,652	602,819	(33,836)	392,018
General public works	64,821	98,574	64,821	98,574
General government	1,070,130	855,145	981,137	767,578
Totals	<u>\$ 3,563,537</u>	<u>\$ 3,790,188</u>	<u>\$ 2,423,753</u>	<u>\$ 2,513,806</u>

### Business-Type Activities

Revenues for the City's business-type activities totaled \$6,172,922 up from \$6,124,664 in 2015 (+7.8%). The primary reason for the increase in revenue relates to the large forgiveness of debt from the Electric Fund. Business-type activity expenses decreased by \$13,090.

## **THE CITY'S FUNDS**

As the City completed the fiscal year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$2,291,445, an increase of \$374,798 from 2015. The combined increase in fund balance, in large part, comes from the street funds doing very little projects, trying to return to a positive fund balance in both major and local streets. The city needs to come up with a long term plan on how to fund street projects. The Public Works department has downsized through attrition, but will have to continue to pay the legacy costs for retiree health insurance.

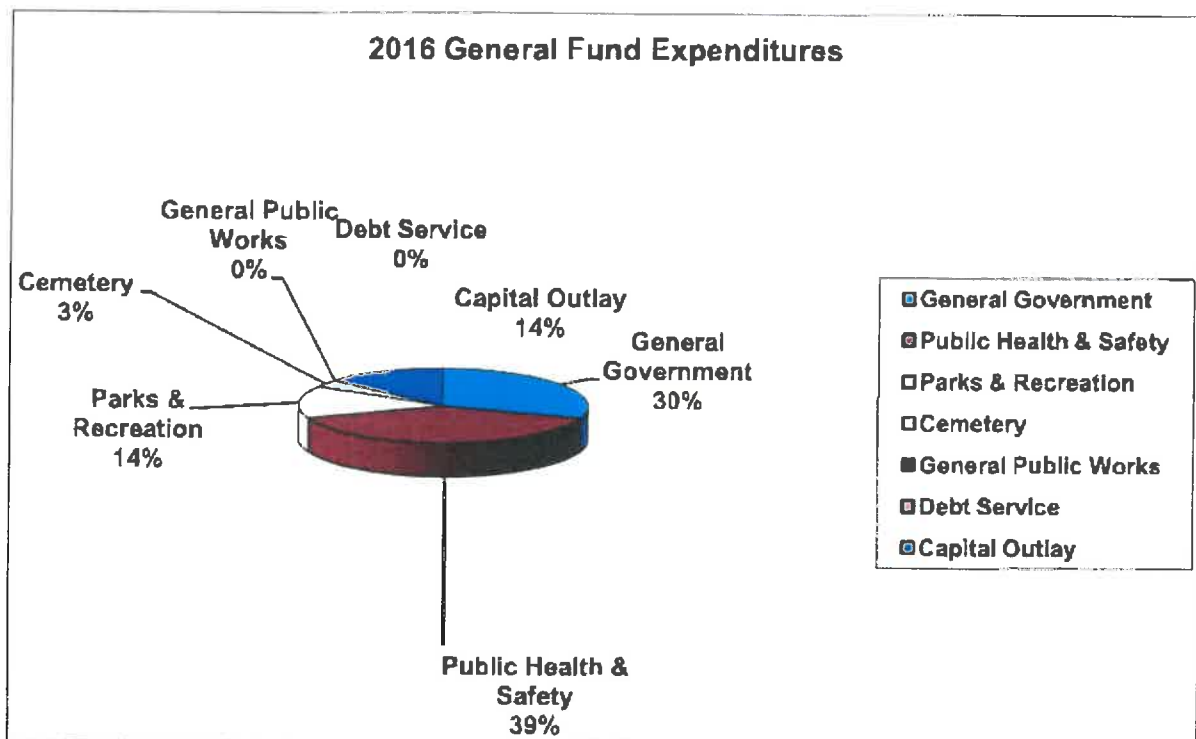
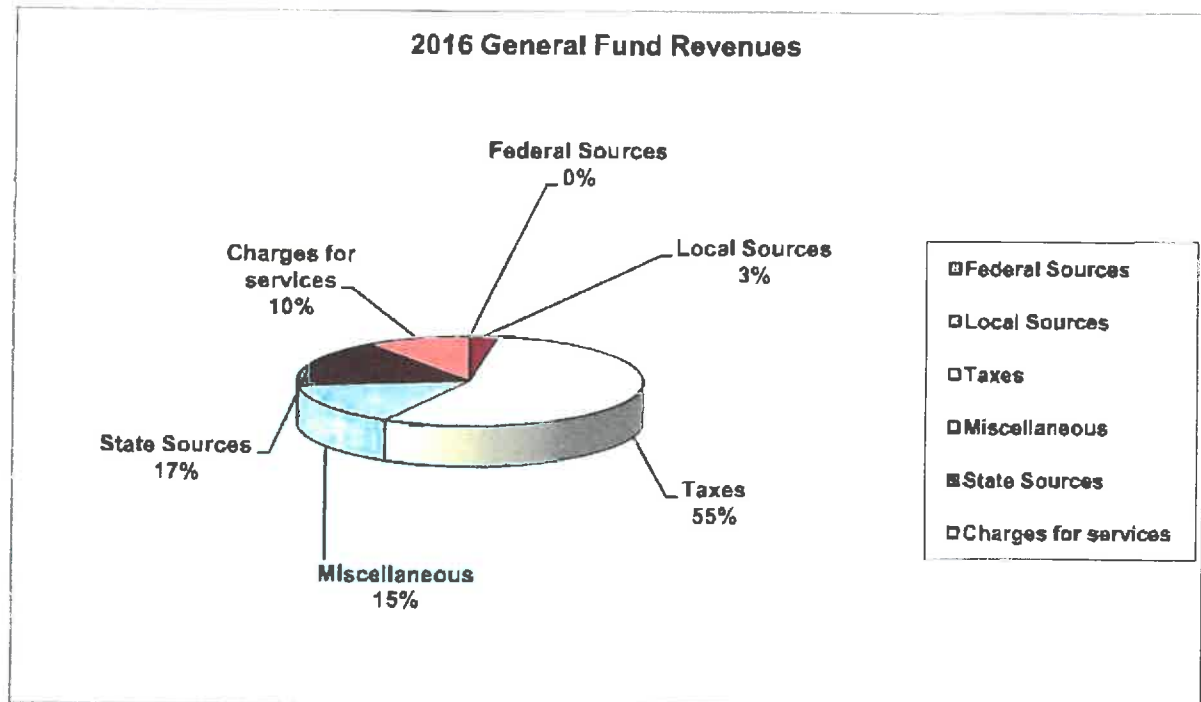
### **General Fund Budgetary Highlights**

Over the course of the year, the budget was amended to recognize known changes to revenue or expenditures. Revenues were less than the amended budget by \$434,260. The final revenue number of \$2,895,045 was 7% lower than the revised revenue estimate of \$3,329,305. The final revenue number being less than budget was an affect of less real property tax and Charter franchise fee revenue. The final revenue number when compared to the 2015 fiscal year was \$336,937 more than 2015. The contributing factors were increases in miscellaneous revenue donations.

Expenditures were less than the amended budget by \$426,318. The final expenditure number of \$3,142,082 was 12% lower than the revised expenditure estimate of \$3,568,400. Final expenditure numbers being less than budget were an effect of reduced expenses in public safety and capital outlay. The final expenditure number when compared to the 2015 fiscal year was \$13,028 more than 2015. The contributing factors were increases in MERS retirement and healthcare offset by diligent review of spending.

The final expenditures exceeded revenues by \$247,037 for the year before transfers. Revenues exceed expenditures by \$213,913 after net transfers in of \$460,950. This allowed us to increase our General Fund fund balance.

## General Fund



## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal 2016, the City had \$15,867,485, net of accumulated depreciation, invested in a variety of capital assets including public safety equipment, buildings, parks, roads, water, wastewater and electric distribution line. This was down from \$15,323,312 in 2015. (See table 4 below)

**Table 4**  
**Capital Assets at Year-End**  
**(net of accumulated depreciation)**

	Governmental Activities		Business-Type Activities	
	2016	2015	2016	2015
Land	\$ 1,619,627	\$ 1,619,627	\$ 236,836	\$ 236,836
Construction in progress	190,231	-	-	-
Land Improvements	330,071	350,670	-	-
Buildings	1,412,600	1,230,653	750,876	792,858
Machinery & Equipment	604,240	495,940	866,385	693,383
Infrastructure - Road System	2,146,931	2,329,300	-	-
Infrastructure - Other	984,487	971,391	400,350	422,612
Distribution/Collection System	-	-	6,374,851	6,180,044
Total	<u>\$ 7,238,187</u>	<u>\$ 6,997,581</u>	<u>\$ 8,629,298</u>	<u>\$ 8,325,733</u>

### DEBT

At year-end the City had \$690,718 in bonds and notes outstanding. This is a net decrease of \$577,811 in total long-term debt. In 2016, the City decided to forgive the debt from the Electric Fund in the amount of \$483,490. The State of Michigan limits the amount of general obligation debt that municipalities can issue to 10% of the current equalized valuation, including TIF valuations, within the City's corporate limits. The City's outstanding general obligation debt is well below the 10% limit.

**Table 5**  
**Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
General obligation bonds/ notes(backed by the City)	\$ -	\$ 27,662	\$ -	\$ 37,486	\$ -	\$ 65,148
Internally financed notes	-	143,464	-	314,199	-	457,663
Revenue bonds and notes (backed by specific tax and fee revenues)	-	-	690,718	745,718	690,718	745,718
Totals	\$ -	\$ 171,126	\$ 690,718	\$ 1,097,403	\$ 690,718	\$ 1,268,529

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials will consider many factors when setting the fiscal year budget and fees that will be charged for business type activities. One of those factors is the economy. Most Michigan municipalities, including Gladstone are still struggling in the State's weak economic environment; the cost of doing business is still increasing sometimes beyond our control. Gladstone takes pride in being the "year round playground" and we will endeavor to maintain the services currently offered to our residents in the most efficient, cost effective manner to continue to make our City the community of choice in the Upper Peninsula.

The two largest sources of revenue for the General Fund, Taxes and State Shared Revenue, are expected to decline or at minimum stay flat for up to two more years. In the General Fund, we have been able to attain the commission directed new target of two months operating expenses of \$524,000. From \$30,000 negative fund balance in 2009 to a positive unassigned \$703,803 says a great deal for the general fund. The City strives to continue to deliver the same level of service our residents expect. This is where thinking outside the box is key. We continue to rely on staff and citizen input to provide ideas and opportunities for better and more efficient services.

The Major Street and Local Street Funds continue to be a concern. The Act 51 revenue is not sufficient to tackle road projects like we should be. This is why special assessments are necessary to maintain the roads we have. The combined fund balance is \$460,469.

Business type activities budgets saw minimal rate increases. With these rate increases the city strives to maintain quality, yet affordable services to our community. The city will continue to monitor costs, however, it appears that certain business type activities accounts are not yet producing enough cash to adequately plan for long-term maintenance projects. We will plan for these projects mindful of maintaining an affordable rate structure for our residents and businesses.



## **MISSION STATEMENT**

We are a caring community with a passion for providing the highest quality of life by embracing innovative ideas while maintaining a hometown atmosphere.

## **VISION STATEMENT**

The City of Gladstone will be the community of choice in the Upper Great Lakes that provides four seasons of recreational activities in a safe, progressive community.

## **GUIDING PRINCIPALS**

We value.....

**Integrity:** Honesty and openness in our commitments.

**Fiscal Responsibility:** Providing responsible stewardship of the City's assets and resources.

**Teamwork:** Working collaboratively to build and maintain productive relationships.

**Quality of Life:** Providing services that support our small town values and close-knit community.

**Innovation:** Continually improving our community by being progressive and innovative.

**Fair and equitable practice:** Promoting respect and equal consideration to residents, businesses and visitors.

**Timely, efficient and responsive services:** Meeting our resident's and customer's needs in a prompt, professional and courteous manner.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers and customers, as well as investors and creditors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have questions about this report or need additional information, contact the City Treasurer, or the City Manager at Gladstone City Hall, 1100 Delta Ave, P.O. Box 32, Gladstone, Michigan, 49837.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF NET POSITION**  
**March 31, 2016**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing Commission
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,789,474	\$ 4,195,682	\$ 5,985,156	\$ 229,064
Receivables:				
Accounts	10	-	10	718
Utilities	-	1,154,423	1,154,423	-
Special assessments	20,037	-	20,037	-
Miscellaneous	97,412	325,358	422,770	127
Due from other governmental units	272,130	-	272,130	-
Prepaid items	43,573	22,457	66,030	20,571
Inventory	15,134	177,431	192,565	-
Total current assets	<u>2,237,770</u>	<u>5,875,351</u>	<u>8,113,121</u>	<u>250,480</u>
Noncurrent assets:				
Restricted assets:				
Cash and cash equivalents	418,458	-	418,458	-
Investments	-	622,140	622,140	238,929
Internal balances	(224,564)	224,564	-	-
Capital assets, net of accumulated depreciation	7,238,187	8,629,298	15,867,485	1,144,739
Total noncurrent assets	<u>7,432,081</u>	<u>9,476,002</u>	<u>16,908,083</u>	<u>1,383,668</u>
Total assets	<u>\$ 9,669,851</u>	<u>\$ 15,351,353</u>	<u>\$ 25,021,204</u>	<u>\$ 1,634,148</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflow - pension plan	<u>\$ 416,316</u>	<u>\$ 176,558</u>	<u>\$ 592,874</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 32,762	\$ 218,139	\$ 250,901	\$ 39,347
Accrued payroll	70,199	38,689	108,888	11,073
Customer deposits	-	104,645	104,645	9,649
Unearned revenue	24,629	23,290	47,919	135
Other liabilities	3,775	-	3,775	16,385
Compensated absences	32,865	25,987	58,852	2,924
Bonds payable	-	55,000	55,000	-
Total current liabilities	<u>164,230</u>	<u>465,750</u>	<u>629,980</u>	<u>79,513</u>
Noncurrent liabilities:				
Compensated absences	131,460	103,949	235,409	1,371
OPEB obligation	672,020	371,491	1,043,511	-
Net pension liability	5,077,034	2,153,150	7,230,184	-
Bonds payable	-	635,718	635,718	-
Total noncurrent liabilities	<u>5,880,514</u>	<u>3,264,308</u>	<u>9,144,822</u>	<u>1,371</u>
Total liabilities	<u>\$ 6,044,744</u>	<u>\$ 3,730,058</u>	<u>\$ 9,774,802</u>	<u>\$ 80,884</u>
<b>NET POSITION</b>				
Net investment in capital assets	7,238,187	\$ 7,938,580	\$ 15,176,767	\$ 1,144,739
Restricted for:				
Expendable	1,021,198	-	1,021,198	-
Nonexpendable	265,087	-	265,087	-
Unrestricted	<u>(4,483,049)</u>	<u>3,859,273</u>	<u>(623,776)</u>	<u>408,525</u>
Total net position	<u>\$ 4,041,423</u>	<u>\$ 11,797,853</u>	<u>\$ 15,839,276</u>	<u>\$ 1,553,264</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended March 31, 2016

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			Component Unit Housing Commission
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 1,070,130	\$ 88,993	\$ -	\$ -	\$ (981,137)	\$ -	\$ (981,137)	\$ -
Public health and safety	1,528,456	36,950	1,690	3,000	(1,486,816)	-	(1,486,816)	-
Parks and recreation	405,652	189,488	-	250,000	33,836	-	33,836	-
Cemetery	73,211	45,395	-	-	(27,816)	-	(27,816)	-
General public works	64,821	-	-	-	(64,821)	-	(64,821)	-
Street system	494,478	9,073	560,590	-	75,185	-	75,185	-
Community development	199,532	8,816	24,713	-	(166,003)	-	(166,003)	-
Total governmental activities	<u>3,836,280</u>	<u>378,715</u>	<u>586,993</u>	<u>253,000</u>	<u>(2,617,572)</u>	<u>-</u>	<u>(2,617,572)</u>	<u>-</u>
Business-type activities:								
Electric utility	3,992,200	4,108,712	-	9,238	-	125,750	125,750	-
Waste water utility	695,924	844,129	-	10,700	-	158,905	158,905	-
Water utility	692,833	812,573	-	305,903	-	425,643	425,643	-
Solid waste	457,121	459,491	-	-	-	2,370	2,370	-
Harbor	57,296	64,749	-	-	-	7,453	7,453	-
Economic development	10,127	8,954	-	-	-	(1,173)	(1,173)	-
Total business-type activities	<u>5,905,501</u>	<u>6,298,608</u>	<u>-</u>	<u>325,841</u>	<u>-</u>	<u>718,948</u>	<u>718,948</u>	<u>-</u>
<b>Total primary government</b>	<u>\$ 9,741,781</u>	<u>\$ 6,677,323</u>	<u>\$ 586,993</u>	<u>\$ 578,841</u>	<u>(2,617,572)</u>	<u>718,948</u>	<u>(1,898,624)</u>	<u>-</u>
<b>Component unit:</b>								
Housing commission	<u>\$ 693,752</u>	<u>\$ 397,011</u>	<u>\$ 199,177</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(97,564)</u>
General revenues:								
Property taxes					1,858,769	-	1,858,769	-
State revenue sharing					486,257	-	486,257	-
Grants and contributions not restricted to specific programs					5,466	-	5,466	-
Contributions to permanent fund					4,835	-	4,835	-
Unrestricted investment earnings					6,094	41,810	47,904	1,107
Miscellaneous					376,719	-	376,719	7,750
Transfers					493,337	(493,337)	-	-
Total general revenues and transfers					<u>3,231,477</u>	<u>(451,527)</u>	<u>2,779,950</u>	<u>8,857</u>
Changes in net position					<u>613,905</u>	<u>267,421</u>	<u>881,326</u>	<u>(88,707)</u>
Net position - beginning					7,721,815	13,351,625	21,073,440	1,641,971
Prior period adjustment					(4,294,297)	(1,821,193)	(6,115,490)	-
Net position - beginning, restated					<u>3,427,518</u>	<u>11,530,432</u>	<u>14,957,950</u>	<u>1,641,971</u>
Net position - ending					<u>\$ 4,041,423</u>	<u>\$ 11,797,853</u>	<u>\$ 15,839,276</u>	<u>\$ 1,553,264</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**March 31, 2016**

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and equivalents:			
Restricted	\$ -	\$ 418,458	\$ 418,458
Unrestricted	865,837	921,505	1,787,342
Receivables:			
Accounts	10	-	10
Special assessments	(318)	20,355	20,037
Miscellaneous	97,412	-	97,412
Due from other governmental units	165,722	106,408	272,130
Prepaid items	40,776	-	40,776
	<u>40,776</u>	<u>-</u>	<u>40,776</u>
Total assets	<u>\$ 1,169,439</u>	<u>\$ 1,466,726</u>	<u>\$ 2,636,165</u>
<b>LIABILITIES</b>			
Liabilities:			
Accounts payable	\$ 15,764	\$ 11,170	\$ 26,934
Accrued payroll	57,735	7,083	64,818
Due to other funds	158,662	65,902	224,564
Unearned revenue	24,506	123	24,629
Other liabilities	3,775	-	3,775
	<u>3,775</u>	<u>-</u>	<u>3,775</u>
Total liabilities	<u>260,442</u>	<u>84,278</u>	<u>344,720</u>
<b>FUND BALANCES</b>			
Nonspendable	40,776	265,087	305,863
Restricted	-	1,021,198	1,021,198
Committed	164,418	96,163	260,581
Assigned	-	-	-
Unassigned	703,803	-	703,803
	<u>703,803</u>	<u>-</u>	<u>703,803</u>
Total fund balances	<u>908,997</u>	<u>1,382,448</u>	<u>2,291,445</u>
Total liabilities and fund balances	<u>\$ 1,169,439</u>	<u>\$ 1,466,726</u>	<u>\$ 2,636,165</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**March 31, 2016**

Total fund balances for governmental funds	\$ 2,291,445
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Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Capital assets	\$ 21,613,764	
Accumulated depreciation	(14,514,371)	
Total capital assets		7,099,393

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	105,909
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Deferred outflow of resources related to recording of net pension liability.	416,316
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

OPEB obligation	\$ (630,281)	
Net pension liability	(5,077,034)	
Compensated absences	(164,325)	(5,871,640)

Total net position of governmental activities	<u>\$ 4,041,423</u>
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See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended March 31, 2016**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Federal sources	\$ -	\$ -	\$ -
State sources	491,723	577,038	1,068,761
Local sources	78,073	458,881	536,954
Taxes	1,602,808	255,961	1,858,769
Charges for services	287,443	-	287,443
Lease income	-	1,200	1,200
Interest income	2,802	3,292	6,094
Miscellaneous	432,196	10,254	442,450
	<u>2,895,045</u>	<u>1,306,626</u>	<u>4,201,671</u>
<b>Total revenues</b>			
<b>EXPENDITURES:</b>			
General government	945,132	35,441	980,573
Public health and safety	1,235,225	-	1,235,225
Parks and recreation	433,736	8,757	442,493
Cemetery	97,364	275	97,639
General public works	10,416	-	10,416
Street system	-	465,371	465,371
Community development	-	190,005	190,005
Capital outlay	420,209	243,469	663,678
Debt service:			
Principal	-	-	-
Interest and other charges	-	-	-
	<u>3,142,082</u>	<u>943,318</u>	<u>4,085,400</u>
<b>Total expenditures</b>			
Excess revenues (expenditures)	<u>(247,037)</u>	<u>363,308</u>	<u>116,271</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Loan proceeds	-	-	-
Transfers in	469,973	85,441	555,414
Transfers out	(9,023)	(287,864)	(296,887)
	<u>460,950</u>	<u>(202,423)</u>	<u>258,527</u>
<b>Total other financing sources (uses)</b>			
Net changes in fund balances	213,913	160,885	374,798
Fund balances - beginning	<u>695,084</u>	<u>1,221,563</u>	<u>1,916,647</u>
Fund balances - ending	<u>\$ 908,997</u>	<u>\$ 1,382,448</u>	<u>\$ 2,291,445</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended March 31, 2016**

Net changes in fund balances - total governmental funds \$ 374,798

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$663,676) was exceeded by depreciation expense (\$411,119) 252,557

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The net revenue (expense) of the internal service fund is reported with governmental activities. 211,180

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Principal repayments or forgiveness:

Bond principal	\$ -	
Note principal	155,464	155,464

Deferred inflow of resources recognized as revenue in the Statement of Activities. (10,013)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	\$ (20,494)	
OPEB obligation	16,834	
Net pension liability	(366,421)	(370,081)

Changes in net position of governmental activities \$ 613,905

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**March 31, 2016**

	Electric Utility	Waste Water Utility	Water Utility
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 2,824,045	\$ 588,357	\$ 398,779
Receivables:			
Utilities	728,288	192,052	147,801
Miscellaneous	-	21,136	302,969
Prepaid items	8,728	7,001	3,931
Inventory	177,431	-	-
Total current assets	<u>3,738,492</u>	<u>808,546</u>	<u>853,480</u>
Noncurrent assets:			
Investments	622,140	-	-
Due from other funds	224,564	-	-
Capital assets, net of accumulated depreciation	3,817,814	2,416,546	1,692,215
Total noncurrent assets	<u>4,664,518</u>	<u>2,416,546</u>	<u>1,692,215</u>
Total assets	<u>\$ 8,403,010</u>	<u>\$ 3,225,092</u>	<u>\$ 2,545,695</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflow - pension plan	<u>\$ 96,638</u>	<u>\$ 26,917</u>	<u>\$ 45,118</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 26,066	\$ 67,744	\$ 116,994
Accrued payroll	15,007	10,343	9,997
Customer deposits	104,645	-	-
Compensated absences	9,628	6,412	9,947
Unearned revenue	-	-	-
Bonds payable	-	55,000	-
Total current liabilities	<u>155,346</u>	<u>139,499</u>	<u>136,938</u>
Noncurrent liabilities:			
Compensated absences	38,510	25,650	39,789
OPEB obligation	147,135	117,917	106,439
Net pension liability	1,178,520	328,251	550,218
Bonds payable	-	635,718	-
Total noncurrent liabilities	<u>1,364,165</u>	<u>1,107,536</u>	<u>696,446</u>
Total liabilities	<u>\$ 1,519,511</u>	<u>\$ 1,247,035</u>	<u>\$ 833,384</u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 3,817,814	\$ 1,725,828	\$ 1,692,215
Unrestricted	<u>3,162,323</u>	<u>279,146</u>	<u>65,214</u>
Total net position	<u>\$ 6,980,137</u>	<u>\$ 2,004,974</u>	<u>\$ 1,757,429</u>

See accompanying notes to financial statements.



Solid Waste	Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 67,184	\$ 317,317	\$ 4,195,682	\$ 2,132
86,282	-	1,154,423	-
500	753	325,358	-
2,797	-	22,457	2,797
-	-	177,431	15,134
<u>156,763</u>	<u>318,070</u>	<u>5,875,351</u>	<u>20,063</u>
-	-	622,140	-
-	-	224,564	-
297,040	405,683	8,629,298	138,794
<u>297,040</u>	<u>405,683</u>	<u>9,476,002</u>	<u>138,794</u>
\$ 453,803	\$ 723,753	\$ 15,351,353	\$ 158,857
\$ 7,885	\$ -	\$ 176,558	\$ -
\$ 6,254	\$ 1,081	\$ 218,139	\$ 5,828
3,342	-	38,689	5,381
-	-	104,645	-
-	-	25,987	-
-	23,290	23,290	-
-	-	55,000	-
<u>9,596</u>	<u>24,371</u>	<u>465,750</u>	<u>11,209</u>
-	-	103,949	-
-	-	371,491	41,739
96,161	-	2,153,150	-
-	-	635,718	-
<u>96,161</u>	<u>-</u>	<u>3,264,308</u>	<u>41,739</u>
\$ 105,757	\$ 24,371	\$ 3,730,058	\$ 52,948
\$ 297,040	\$ 405,683	\$ 7,938,580	\$ 138,794
<u>58,891</u>	<u>293,699</u>	<u>3,859,273</u>	<u>(32,885)</u>
\$ 355,931	\$ 699,382	\$ 11,797,853	\$ 105,909

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2016**

	Electric Utility	Waste Water Utility	Water Utility
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 3,891,461	\$ 794,990	\$ 776,150
Miscellaneous	217,251	49,139	36,423
Total operating revenue	<u>4,108,712</u>	<u>844,129</u>	<u>812,573</u>
<b>OPERATING EXPENSES:</b>			
Salaries and fringes	734,599	401,362	384,731
Supplies	56,599	50,995	87,775
Contracted services	40,059	24,766	14,384
Repairs and maintenance	10,311	22,146	28,330
Utilities	114,012	53,384	52,930
Purchased power	2,540,724	-	-
Rent	500	2,043	8,190
Memberships and dues	8,391	5,186	1,302
Travel	566	326	123
Insurance	36,382	8,816	12,759
Education and training	7,847	4,032	3,493
Energy optimization program	80,798	-	-
Landfill tipping fees	-	516	-
Depreciation	189,129	109,052	89,326
Miscellaneous	172,283	1,629	9,490
Total operating expenses	<u>3,992,200</u>	<u>684,253</u>	<u>692,833</u>
Operating income (loss)	<u>116,512</u>	<u>159,876</u>	<u>119,740</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest income	37,474	2,190	2,074
Interest expense	-	(11,671)	-
Total nonoperating revenue (expense)	<u>37,474</u>	<u>(9,481)</u>	<u>2,074</u>
Income (loss) before transfers, contributions and special items	153,986	150,395	121,814
Capital contributions	9,238	10,700	305,903
Transfer in	-	799	60,799
Transfer out	(670,608)	(78,249)	(76,666)
Change in net position	<u>(507,384)</u>	<u>83,645</u>	<u>411,850</u>
Total net position - beginning	8,484,346	2,198,972	1,810,968
Prior period adjustment	(996,825)	(277,643)	(465,389)
Total net position - beginning, restated	<u>7,487,521</u>	<u>1,921,329</u>	<u>1,345,579</u>
Total net position - ending	<u>\$ 6,980,137</u>	<u>\$ 2,004,974</u>	<u>\$ 1,757,429</u>

See accompanying notes to financial statements.

Solid Waste	Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 453,053	\$ 64,749	\$ 5,980,403	\$ 267,152
6,438	8,954	318,205	9,636
459,491	73,703	6,298,608	276,788
230,879	9,452	1,761,023	123,164
17,489	11,160	224,018	99,379
5,392	10,884	95,485	8,841
30,828	-	91,615	19,775
20	10,013	230,359	19,045
-	-	2,540,724	-
39,949	-	50,682	95
-	-	14,879	199
-	-	1,015	-
310	622	58,889	2,852
51	-	15,423	109
-	-	80,798	-
90,984	-	91,500	-
37,696	23,578	448,781	25,597
922	1,714	186,038	1,119
454,520	67,423	5,891,229	300,175
4,971	6,280	407,379	(23,387)
24	48	41,810	-
(2,601)	-	(14,272)	(243)
(2,577)	48	27,538	(243)
2,394	6,328	434,917	(23,630)
-	-	325,841	-
211,725	84,745	358,068	234,810
(19,585)	(6,297)	(851,405)	-
194,534	84,776	267,421	211,180
242,733	614,606	13,351,625	(105,271)
(81,336)	-	(1,821,193)	-
161,397	614,606	11,530,432	(105,271)
\$ 355,931	\$ 699,382	\$ 11,797,853	\$ 105,909

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended March 31, 2016

	Electric Utility	Waste Water Utility	Water Utility
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 4,116,681	\$ 833,279	\$ 490,960
Cash receipts from interfund services provided	-	-	-
Payments to suppliers	(3,046,938)	(201,183)	(105,018)
Payments for wages and related benefits	(651,426)	(382,041)	(348,844)
Other receipts (payments)	217,251	49,139	36,423
Net cash provided (used) by operating activities	635,568	299,194	73,521
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating transfers in (out)	(670,608)	(77,450)	(15,867)
Interfund loan (net)	457,663	-	-
Cash received (paid) on customer deposits	9,201	-	-
Net cash provided (used) by noncapital financing activities	(203,744)	(77,450)	(15,867)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of fixed assets	(46,269)	(150,762)	(555,315)
Principal paid on debt instruments	(37,486)	(55,000)	-
Interest paid on debt instruments	-	(11,671)	-
Capital contributions	9,238	10,700	305,903
Net cash provided (used) by capital and related financing activities	(74,517)	(206,733)	(249,412)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net transfers from/(to) investments	(9,221)	-	-
Interest earnings	37,474	2,190	2,074
Net cash provided (used) by investing activities	28,253	2,190	2,074
Net increase (decrease) in cash and equivalents	385,560	17,201	(189,684)
Cash and equivalents, beginning of year	2,438,485	571,156	588,463
Cash and equivalents, end of year	\$ 2,824,045	\$ 588,357	\$ 398,779
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ 116,512	\$ 159,876	\$ 119,740
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation/amortization expense	189,129	109,052	89,326
Prior period adjustment-pension liability	(996,825)	(277,643)	(465,389)
Changes in assets and liabilities:			
(Increase) decrease in receivables	225,220	38,289	(285,190)
(Increase) decrease in prepaid items	(2,031)	(1,556)	(941)
(Increase) decrease in inventory	2,241	-	-
(Increase) decrease in deferred outflows	(96,638)	(26,917)	(45,118)
Increase (decrease) in accounts payable	21,324	(25,788)	114,699
Increase (decrease) in accrued payroll	2,046	(1,221)	(981)
Increase (decrease) in OPEB liability	(3,930)	(3,149)	(2,843)
Increase (decrease) in net pension liability	1,178,520	328,251	550,218
Increase (decrease) in due to other funds	-	-	-
Increase (decrease) in unearned revenue	-	-	-
Net cash provided by operating activities	\$ 635,568	\$ 299,194	\$ 73,521

See accompanying notes to financial statements.

Solid Waste	Nonmajor Funds	Total Enterprise Funds	Internal Service Fund
\$ 463,633	\$ 64,749	\$ 5,969,302	\$ -
-	-	-	267,152
(189,001)	(29,582)	(3,571,722)	(162,430)
(222,774)	(9,468)	(1,614,553)	(121,564)
6,438	8,954	318,205	(186,285)
58,296	34,653	1,101,232	(203,127)
192,140	(6,297)	(578,082)	234,810
-	-	457,663	-
-	-	9,201	-
192,140	(6,297)	(111,218)	234,810
-	-	(752,346)	(13,646)
(229,454)	-	(321,940)	(15,662)
(2,601)	-	(14,272)	(243)
-	-	325,841	-
(232,055)	-	(762,717)	(29,551)
-	-	(9,221)	-
23	48	41,809	-
23	48	32,588	-
18,404	28,404	259,885	2,132
48,780	288,913	3,935,797	-
\$ 67,184	\$ 317,317	\$ 4,195,682	\$ 2,132
\$ 4,971	\$ 6,280	\$ 407,379	\$ (23,387)
37,696	23,578	448,781	25,597
(81,336)	-	(1,821,193)	-
10,580	-	(11,101)	2,585
(617)	-	(5,145)	(626)
-	-	2,241	-
(7,885)	-	(176,558)	-
(2,439)	987	108,783	(10,390)
1,165	(16)	993	2,715
-	-	(9,922)	(1,115)
96,161	-	2,153,150	-
-	-	-	(198,506)
-	3,824	3,824	-
\$ 58,296	\$ 34,653	\$ 1,101,232	\$ (203,127)

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**March 31, 2016**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 9,939
Receivables:	
Delinquent taxes	<u>102,001</u>
Total assets	<u>\$ 111,940</u>
<b>LIABILITIES</b>	
Due to other governmental units	<u>\$ 111,940</u>

See accompanying notes to financial statements.

## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### (1) REPORTING ENTITY

The City of Gladstone was incorporated March 1, 1889 under the provision of Act 279, P. A. 1909, as amended (Home Rule City Act) and operates under a Council-Manager form of government.

For financial reporting purposes, in conformance with GASB Statement 14, as amended by GASB 39, the City's basic financial statements include the accounts of all City operations for which the City exercises oversight responsibility. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, utility services, recreation, public improvements, planning and zoning, and general administrative services. As required by generally accepted accounting principles, these financial statements present the City of Gladstone (the primary government) and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, and accordingly, data from these units are combined with data of the City. Each discretely presented component unit is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the City. All blended and discretely presented component units have a March 31 year end.

Component Units – Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government. In conformity with accounting principles generally accepted in the United States of America, the financial statements of the Gladstone Housing Commission are reported as a discretely presented component unit in a separate column to emphasize that they are legally separate from the City.

Gladstone Housing Commission – The Housing Commission was formed by the City of Gladstone under Public Act 18 of 1933 for the purpose of providing safe and affordable housing for low income and elderly individuals. The City Commission appoints the board members to the Housing Commission; however, the City does not provide any financial assistance to the Housing Commission. The Housing Commission issues separately audited financial statements which can be obtained from the Gladstone Housing Commission at 217 Dakota Avenue, Gladstone, MI 49837.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The following entities are not included because the City does not exercise oversight responsibility or they are autonomous governmental units.

Gladstone Area Schools – provides education services to the community.

Gladstone Area Public Library – provides library services to the community.

Gladstone Senior Citizens Non-Profit Corporation – provides recreational activities for the elderly.

Joint Venture – The City of Gladstone is a participant with Delta County, the City of Escanaba, and local townships in a joint venture to provide for a landfill, the Delta Solid Waste Management Authority. The Authority is governed by a seven person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities, and one member of the Delta County Board of Commissioners. Complete financial statements for the Delta Solid Waste Management Authority can be obtained directly from Delta Solid Waste Management Authority. See Note N for additional information.

Delta Solid Waste Management Authority  
1100 Delta Avenue  
Gladstone, MI 49837

The accounting policies of the City of Gladstone conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

**(2) BASIS OF PRESENTATION**

**Government-Wide Financial Statements:**

The Statement of Net Position and Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods or services provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

**Fund Financial Statements:**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

1. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
2. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following as major governmental funds either in accordance with the above criteria:

The General Fund which is described below.

The City reports the following as major enterprise funds in accordance with the above criteria:

The Electric Utility Fund accounts for electric services provided to the citizens of the City of Gladstone.

## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Waste Water Utility Fund accounts for waste water services provided to the citizens of the City of Gladstone.

The Water Utility Fund accounts for water services provided to the citizens of the City of Gladstone.

The Solid Waste Fund which is used to account for garbage collection activities.

The funds of the City are described below:

#### **Governmental Funds**

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Debt Service Funds – Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Fund – Capital project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Permanent Fund – The Cemetery Perpetual Care Fund is the City's only permanent fund. The principal portion of this fund must stay intact, but the interest earnings are used to provide care for the cemetery.

#### **Proprietary Funds**

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Internal Service Fund – The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. In the government-wide financial statements, the Equipment Fund is the City's only internal service fund and is included with the governmental activities and accounts for equipment usage activity used by various City departments.

#### **Fiduciary Funds**

Agency Fund - The Tax Fund is the City's only agency fund and is used to account for the collections and payments of amounts received by the City in an agency capacity for governmental units assessing a property tax on property within the City limits. An agency fund is used to account for assets held by the City in a trustee capacity or as an agent for individuals or other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

#### **(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

#### **Measurement Focus**

On the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-type activities are presented using the economic resource measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net position.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

#### **Basis of Accounting**

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

#### **(4) ASSETS, DEFERRED OUTFLOWS, LIABILITIES, DEFERRED INFLOWS AND NET POSITION/FUND BALANCE**

- a. Cash and Equivalents – The City’s cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Position are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less or where there is no loss of principal upon early withdrawal.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable. The City has not recorded an allowance for uncollectables as the City does not anticipate any material uncollectable accounts.
- c. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.
- d. Inventory – Materials inventory in the Electric Utility Fund and the Equipment Fund are recorded at the lower of cost or market using the first-in first-out method of valuing inventory.
- e. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Statements*

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Prior to April 1, 2001, governmental funds' infrastructure asset, the major and local street systems, was not capitalized. These assets have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	25 – 50 years
Machinery and equipment	3 – 20 years
Infrastructure	10 – 50 years

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Fund Financial Statements*

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

- f. Restricted Assets – Restricted assets include cash and equivalents which have been reserved for the principal portion of the Cemetery Perpetual Care Fund non-expendable cash.
- g. Long-Term Debt – The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- h. Compensated Absences – The City's policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.

## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- i. Unearned Revenues – In the government-wide statements and proprietary fund financial statements unearned revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements unearned revenue is recognized when revenue is unearned or unavailable. The City has reported unearned revenue of \$24,506 in the General Fund, \$123 in the Downtown Development Fund, and \$23,290 in the Harbor Fund for prepaid service revenue. These amounts have been deemed measurable, but not currently available.
- j. Deferred Outflows of Resources - In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has pension related items that qualify for reporting in this category.
- k. Deferred Inflows of Resources - In addition to liabilities, the statement of net position and/or governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has other state grants related to Public Act 252 that qualify for reporting in this category.
- l. Equity Classification

#### *Government-Wide Statements*

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

2. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted – All other net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

*Fund Statements*

Fund Balance Classifications – The governmental fund financial statements present fund balance based classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

**Nonspendable** – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified prepaid items as nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

**Restricted** – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed** – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Commission. These amounts cannot be used for any other purpose unless the City Commission removes or changes the specified use.

**Assigned** – This classification includes amounts that are constrained by the City’s intent to be used for a specific purpose but are neither restricted nor committed. The intent can be expressed by the City through the budgetary process and this classification also includes the remaining positive fund balance for all governmental funds.



## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unassigned – This classification includes the residual fund balance of the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

#### **(5) REVENUES AND EXPENDITURES/EXPENSES**

##### **Revenues**

###### *Government-Wide Statements*

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include 1) charges to customers or applicants for goods or services, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments, and interest earnings.

###### *Fund Statements*

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is generally the City's policy to use restricted resources first.

##### **Expenses/Expenditures**

###### *Government-Wide Statements*

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### *Fund Statements*

In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

##### **Operating Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reports as nonoperating revenues and expenses.

##### **Other Financing Sources (Uses)**

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

#### **(6) OTHER SIGNIFICANT ACCOUNTING POLICIES**

##### **Interfund Activity**

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Position, except for the residual amounts due between governmental and business-type activities.

## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Budgets and Budgetary Accounting**

The development and adoption of the City's budget is based upon requirements as set forth in both the City Charter and Act 2, Public Acts of 1968 of the State of Michigan, the "Uniform Budgeting and Accounting Act." Act 2, Public Acts of 1968 of the State of Michigan requires a formal budget for all funds except Internal Service, Enterprise or Public Improvements/Building and Site Funds, which require an "informational summary" in lieu of a formal budget. All budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to February 1, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Prior to April 1, a public hearing is held to allow for public comment on the proposed budget and then the budget is legally enacted through passage of an ordinance.
- c. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Commission.
- d. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the City Commission in March. Individual amendments were material in relation to the original appropriations which were amended.
- e. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control. Any unexpended appropriations lapse at the end of the fiscal year.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property Taxes**

Property taxes levied attach as an enforceable lien on property. The City bills and collects its own property taxes and also the taxes for the local School District, the Intermediate School District, the Community College and the County. Collections and remittances for all taxes are accounted for in the Tax (Agency) Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables, with the exception of delinquent City taxes purchased by the County Treasurer, which are recognized as revenue in the year levied regardless of when the tax settlement is received from the County Treasurer, which is typically within 90 days of year-end.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF GLADSTONE, MICHIGAN

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS**

The composition of cash and equivalents as reported in the government-wide Statement of Net Position is presented below:

Imprest Cash		\$ 968
Deposits:		
Checking accounts	\$6,104,992	
Savings	2,083	
Certificate of Deposit	<u>305,510</u>	<u>6,412,585</u>
Total cash and equivalents		<u><u>\$6,413,553</u></u>
Government-wide Statement of Net Position Presentation:		
Unrestricted	\$5,985,156	
Restricted	<u>418,458</u>	<u>\$6,403,614</u>
Statement of Fiduciary Net Assets		<u>9,939</u>
Total cash and equivalents		<u><u>\$6,413,553</u></u>
Investments:		
U.S. government agency securities		\$ 249,593
Upper Peninsula Public Power Agency		<u>372,547</u>
Total investments		<u><u>\$ 622,140</u></u>

State statutes authorize the City to deposit and invest in the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

**NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)**

- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptance of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 sat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
  - i. The purchase of securities on a when-issued or delayed delivery basis.
  - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
  - iii. The limited ability to borrow and pledge a like portion of the portfolios' assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation of 1967, MCL 124.501 to 124.512.
- i. Investments pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, MCL 129.141 to 129.150.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)**

All deposits are carried at cost and are in accordance with statutory authority. The Governmental Accounting Standards Board (GASB) Statement No. 40 risk disclosures for the City's cash deposits and investments are as follows:

<u>Deposits</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured	\$ 557,593	\$ 557,593
Uninsured	5,944,020	5,855,960
Total	<u>\$ 6,501,613</u>	<u>\$ 6,413,553</u>

**Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a policy for custodial credit risk. As noted in the preceding table, the City has \$5,944,020 of bank deposits that were uninsured and uncollateralized.

**Custodial Credit Risk of Investments**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government agency securities	\$ 249,593	Counter party

**Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities. At year end, the specific maturities of investments are as follows:

<u>Investments</u>	<u>Fair Value</u>	<u>Maturities</u>
U.S. government agency securities		
Federal Home Loan Mortgage Corp	\$ 249,593	3/30/2021

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE B – CASH AND EQUIVALENTS AND INVESTMENTS (continued)**

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and the City's investment policy limit the investment in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government agency securities	\$ 249,593	AA+	S & P

Cash has been restricted within the listed funds as follows:

1. The Cemetery Perpetual Care Fund in the amount of \$265,087 for cemetery care as required by the nature of the fund.
2. The Mary Cretens Trust Fund in the amount of \$418,458 for community maintenance and improvements as required by the nature of the fund.

**Investment in Upper Peninsula Public Power Agency**

During the year ended March 31, 2004, the City invested in Upper Peninsula Public Power Agency (UPPPA) along with other municipalities, which in turn purchased an interest in American Transmission Company, LLC and ATC Management, Inc. The purpose of this investment was to allow municipalities to invest in the transmission of power to their municipality as well as obtain a reasonable rate of return on their investment. The City has contributed cash and equipment as part of its investment in UPPPA. Neither UPPPA or ATC are publicly traded companies, therefore, the investment is non-risk categorized and the City is at risk for the underlying value of the issuer, including all related risks. At March 31, 2016 the value of the investment was \$372,547 and was based upon the value as reported in UPPPA's December 31, 2015 audit, which the City feels approximates market value given the annual return on this investment.



CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

**NOTE C – PROPERTY TAXES**

(1) Tax information:

Assessment Date. . . . . December 31

Taxes payable . . . . . July 10

Taxes Delinquent . . . . . March 1 following date payable

Penalties for delinquency – The following charges are added to unpaid taxes:

On August 15, a 4% penalty is added.

Commencing March 1, interest is added to all unpaid taxes at the rate of 1% per month. Delinquent real property taxes are acquired by the Treasurer of Delta County. An additional 4% collection fee is added to the balance owing at the time.

Lien on property – Unpaid taxes, together with all charges thereon, become a continuing lien on property assessed. The general tax law of the State provides that delinquent real estate taxes be sold at public auction in July or November of the second year following the year of tax levy.

(2) Schedule of State Equalized Valuation and Taxable Values:

Year	Real	Personal	Total
1980	\$ 22,818,556	\$ 1,416,900	\$ 24,235,456
1981	23,717,233	1,402,900	25,120,133
1982	25,591,300	1,416,100	27,007,400
1983	26,259,100	1,735,400	27,994,500
1984	26,456,400	1,886,300	28,342,700
1985	27,148,200	2,128,500	29,276,700
1986	28,189,600	2,339,400	30,529,000
1987	28,523,700	2,300,100	30,823,800
1988	28,897,200	3,542,000	32,439,200
1989	29,348,900	3,564,000	32,912,900
1990	30,052,800	3,928,000	33,980,800
1991	32,466,100	4,025,000	36,491,100
1992	35,490,200	4,653,700	40,143,900
1993	34,997,900	4,170,900	39,168,800
1994	37,978,900	4,598,000	42,576,900
1995	40,146,600	4,840,200	44,986,800

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE C – PROPERTY TAXES (continued)**

**Schedule of State Equalized Valuation and Taxable Values (continued):**

<u>Year</u>	<u>Real</u>	<u>Personal</u>	<u>Total</u>
1996	44,252,300	5,614,100	49,866,400
1997	44,731,000	5,547,450	50,278,450
1998	48,702,846	6,544,900	55,247,746
1999	52,246,500	7,261,900	59,508,400
2000	56,966,800	7,003,200	63,970,000
2001	61,646,100	6,894,200	68,540,300
2002	65,730,220	7,074,246	72,804,466
2003	69,954,964	7,532,830	77,487,794
2004	73,303,100	6,376,000	79,679,100
2005	77,310,900	6,341,200	83,652,100
2006	82,438,553	6,280,247	88,718,800
2007	85,949,610	6,439,250	92,388,860
2008	88,547,733	5,930,894	94,478,627
2009	91,044,442	5,546,476	96,590,918
2010	91,709,532	5,325,444	97,034,976
2011	89,049,581	6,938,949	95,988,530
2012	92,552,022	6,252,741	98,804,763
2013	94,803,405	6,911,937	101,715,342
2014	95,117,711	8,423,595	103,541,306
2015	94,312,251	11,278,862	105,591,113

Note: Pursuant to Proposal A, assessed property taxes are levied based upon taxable values beginning in 1995.

The State of Michigan, beginning in 1967, required that taxes be levied on state equalized valuations rather than on assessed valuation. The valuations for the years 1961 through 1966, inclusive, are City assessed valuations, the year 1967 are state equalized valuations, and the year 1968 are City assessed valuations. In 1968, the City was allowed to assess on City valuations because they were almost equal to that of State equalized valuations.

# CITY OF GLADSTONE, MICHIGAN

## NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

### NOTE C – PROPERTY TAXES (continued)

(1) Annual tax rates (per \$1,000 valuation):

<u>Year</u>	<u>City</u> <u>Tax</u>	<u>School *</u>	<u>Schools</u>			<u>Total</u>	<u>Community</u> <u>College</u>	<u>County</u> <u>Taxes</u>	<u>L.S.D.</u>	<u>Total</u>
			<u>Non-</u> <u>Homestead</u>	<u>State</u>	<u>Debt</u>	<u>Local</u> <u>Taxes</u>				
1961	14.7300	17.0000	-	-	-	31.7300	-	7.9300	-	39.6600
1962	14.7400	23.6000	-	-	-	38.3400	-	7.9500	-	46.2900
1963	14.7700	23.3900	-	-	-	38.1600	1.1410	10.1550	0.1140	49.5700
1964	15.9100	23.1200	-	-	-	39.0300	1.1400	8.1600	0.0800	48.4100
1965	15.9300	24.2300	-	-	-	40.1600	1.1400	8.2300	0.1000	49.6300
1966	15.9000	24.8600	-	-	-	40.7600	1.1400	8.2100	0.6900	50.8000
1967	14.0600	21.8000	-	-	-	35.8600	1.0000	6.2000	0.6000	43.6600
1968	14.0000	23.3000	-	-	-	37.3000	2.5000	5.2000	0.6000	45.6000
1969	15.0000	21.8000	-	-	-	36.8000	2.5000	5.2000	1.1100	45.6100
1970	17.0000	19.8000	-	-	-	36.8000	2.5000	5.9000	1.1460	46.3460
1971	17.0000	22.0000	-	-	-	39.0000	2.5000	5.9000	2.2200	49.6200
1972	17.0000	21.3000	-	-	-	38.3000	2.5000	6.2000	2.6500	49.6500
1973	17.0000	27.1000	-	-	-	44.1000	2.5000	5.0000	2.7000	54.3000
1974	16.0000	24.1000	-	-	-	40.1000	2.5000	5.0000	2.7000	50.3000
1975	17.0000	23.7000	-	-	-	40.7000	2.5000	5.4500	2.6500	51.3000
1976	17.0000	27.2000	-	-	-	44.2000	2.5000	5.4500	2.6500	54.8000
1977	17.0000	27.2800	-	-	-	44.2800	2.5000	5.4500	2.6500	54.8800
1978	17.0000	16.7300	-	-	-	33.7300	2.5000	5.4500	2.6500	44.3300
1979	17.0000	27.6000	-	-	-	44.6000	2.5000	5.4500	2.6500	55.2000
1980	17.0000	30.1200	-	-	-	47.1200	2.5000	5.4500	2.6500	57.7200
1981	17.0000	32.4800	-	-	-	49.4800	2.5000	5.4500	2.6500	60.0800
1982	16.9900	31.2800	-	-	-	48.2700	2.5000	5.2000	2.6500	58.6200
1983	16.9371	21.2800	-	-	-	38.2171	2.5000	5.0844	2.6500	48.4515
1984	16.8867	31.6129	-	-	-	48.4996	2.5000	5.4500	2.6500	59.0996
1985	17.0000	33.8496	-	-	-	50.8496	2.5000	5.4500	2.6500	61.4496
1986	17.0000	33.4659	-	-	-	50.4659	2.5000	5.4500	2.6500	61.0659
1987	17.0000	33.2594	-	-	-	50.2594	2.5000	6.1000	2.6500	61.5094
1988	17.0000	33.2732	-	-	-	50.2732	2.5000	5.4500	2.6500	60.8732
1989	17.0000	37.5654	-	-	-	54.5654	2.5000	6.1000	2.6500	65.8154
1990	17.0000	37.5452	-	-	-	54.5452	2.5000	7.0500	2.6500	66.7452

# CITY OF GLADSTONE, MICHIGAN

## NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

### NOTE C – PROPERTY TAXES (continued)

Annual tax rates (per \$1,000 valuation) (continued):

Year	City Tax	School *	Schools			Total	Community College	County Taxes	I.S.D.	Total
			Non- Homestead	State	Debt	Local Taxes				
1991	17.0000	37.0772	-	-	-	54.0772	2.5000	7.1000	2.6500	66.3272
1992	17.0000	37.0522	-	-	-	54.0522	2.5000	7.1000	2.6500	66.3022
1993	16.6575	35.6443	-	-	-	52.3018	2.4055	7.0873	2.5501	64.3447
1994	16.3115	-	18.0000	6.0000	1.5051	41.8166	2.3735	7.0483	2.5124	53.7508
1995	16.3115	-	18.0000	6.0000	1.5051	41.8166	2.2735	7.0483	2.5124	54.6508
1996	16.3115	-	18.0000	6.0000	1.0291	41.3406	3.3735	7.0483	2.5124	54.2748
1997	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1998	16.2528	-	18.0000	6.0000	8.5600	48.8128	3.3735	7.0483	2.5117	61.7463
1999	16.1065	-	18.0000	6.0000	8.5600	48.6665	3.3600	7.0107	2.4917	61.5289
2000	15.9180	-	18.0000	6.0000	8.5600	48.4780	3.3585	6.6319	2.4807	60.9491
2001	15.6744	-	18.0000	6.0000	8.5600	48.2344	3.3511	6.6112	2.4695	60.6662
2002	15.6680	-	18.0000	6.0000	8.5600	48.2280	3.3506	6.6097	2.4596	60.6479
2003	15.6303	-	18.0000	5.0000	8.5600	47.1903	3.5000	6.5719	2.4375	59.6997
2004	15.6303	-	18.0000	6.0000	8.5600	48.1903	3.5000	6.5455	2.4191	60.6549
2005	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	61.1223
2006	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5501	7.1107	2.3994	61.1223
2007	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5225	7.5897	2.3854	61.5597
2008	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5149	7.5897	2.3851	61.5518
2009	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5109	7.4397	2.3851	61.3978
2010	15.5021	-	18.0000	6.0000	8.5600	48.0621	3.5111	7.4317	2.3851	61.3900
2011	15.5021	-	17.5669	6.0000	7.0000	46.0690	3.3076	7.6317	2.3851	59.3934
2012	13.6785	-	17.5669	6.0000	6.6500	43.8954	3.3076	7.6317	2.3851	57.2198
2013	13.6785	-	18.0000	6.0000	6.6500	44.3285	3.3076	7.4317	2.3851	57.4529
2014	15.5021	-	18.0000	6.0000	6.5900	46.0921	3.3076	7.4317	2.3851	59.2165
2015	15.5021	-	18.0000	6.0000	6.5900	46.0921	3.3076	7.3317	2.3851	59.1165

\* From 1961 to 1993, the school millage was applied to all properties and included the debt millage.

- (1) City's Share of Current Property Taxes – The City's share of current real and personal property taxes for the year ended March 31, 2016 were as follows: General Fund \$1,473,767 and the DDA Fund capture from the summer and winter levy's was \$255,961

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE D – LONG-TERM RECEIVABLES**

**Business-Type Activities:**

The City has elected to internally finance four different capital purchases through the Electric Fund. The terms of the note receivable to the Electric Fund are the same as listed in Note F. During the current year, the City Commission chose to forgive all debt financed by the Electric Fund. As of March 31, 2016, there were no long-term receivables.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

**NOTE E – CAPITAL ASSETS**

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital asset activity for the year ended March 31, 2016, was as follows:

	Balance at April 1, 2015	Additions	Transfers/ Disposals	Balance at March 31, 2016
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,619,627	\$ -	\$ -	\$ 1,619,627
Construction in progress	-	190,231	-	190,231
Total non-depreciable capital assets	1,619,627	190,231	-	1,809,858
Capital assets being depreciated:				
Land improvements	532,347	-	-	532,347
Buildings	3,095,552	237,811	-	3,333,363
Machinery and equipment	2,828,072	216,993	150,460	2,894,605
Infrastructure-road system	12,830,655	-	-	12,830,655
Infrastructure-other	1,561,919	32,287	-	1,594,206
Total depreciable capital assets	20,848,545	487,091	150,460	21,185,176
Total capital assets	22,468,172	677,322	150,460	22,995,034
Less accumulated depreciation:				
Land improvements	181,677	20,599	-	202,276
Buildings	1,864,900	55,863	-	1,920,763
Machinery and equipment	2,332,132	108,693	150,460	2,290,365
Infrastructure-road system	10,501,354	182,370	-	10,683,724
Infrastructure-other	590,528	69,191	-	659,719
Total accumulated depreciation	15,470,591	436,716	150,460	15,756,847
Net depreciable capital assets	5,377,954	50,375	-	5,428,329
Governmental activities capital assets, net	<u>\$ 6,997,581</u>	<u>\$ 240,606</u>	<u>\$ -</u>	<u>\$ 7,238,187</u>

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE E – CAPITAL ASSETS (continued)**

	Balance at April 1, 2015	Transfers/ Additions	Transfers/ Disposals	Balance at March 31, 2016
<b>Business-type activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 236,836	\$ -	\$ -	\$ 236,836
Construction in progress	-	-	-	-
<b>Total non-depreciable capital assets</b>	<u>236,836</u>	<u>-</u>	<u>-</u>	<u>236,836</u>
<b>Capital assets being depreciated:</b>				
Buildings	1,125,879	-	-	1,125,879
Machinery and equipment	1,388,426	260,223	-	1,648,649
Infrastructure - other	485,287	-	-	485,287
Distribution/collection system	16,611,304	492,123	-	17,103,427
<b>Total depreciable capital assets</b>	<u>19,610,896</u>	<u>752,346</u>	<u>-</u>	<u>20,363,242</u>
<b>Total capital assets</b>	<u>19,847,732</u>	<u>752,346</u>	<u>-</u>	<u>20,600,078</u>
<b>Less accumulated depreciation:</b>				
Buildings	333,021	41,982	-	375,003
Machinery and equipment	695,043	87,221	-	782,264
Infrastructure - other	62,675	22,262	-	84,937
Distribution/collection system	10,431,260	297,316	-	10,728,576
<b>Total accumulated depreciation</b>	<u>11,521,999</u>	<u>448,781</u>	<u>-</u>	<u>11,970,780</u>
<b>Net depreciable capital assets</b>	<u>8,088,897</u>	<u>303,565</u>	<u>-</u>	<u>8,392,462</u>
<b>Business-type activities capital assets, net</b>	<u><u>\$ 8,325,733</u></u>	<u><u>\$ 303,565</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,629,298</u></u>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

**NOTE E – CAPITAL ASSETS (continued)**

Depreciation expense was charged to the following activities:

Governmental activities:

General government	\$ 22,299
Public health and safety	64,468
Parks and recreation	114,770
Cemetery	6,704
Street system	190,987
Community development	11,891
Internal service activity	25,597

Total governmental activities

depreciation expense	<u>\$ 436,716</u>
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Business-type activities:

Electric	\$ 189,129
Waste water	109,052
Water	89,326
Solid waste	37,696
Harbor	22,531
Development	1,047

Total business-type activities

depreciation expense	<u>\$ 448,781</u>
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The City adopted a capitalization policy that identifies fixed assets as those having a value of \$2,000 or more as of March 31, 2002.



**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE F – LONG-TERM DEBT**

The following is a summary of changes in long-term debt for the year ended March 31, 2016:

Type of Debt	Balance April 1, 2015	Additions	Deductions	Balance March 31, 2016	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Note 5 - Electric Fund	\$ 11,656	\$ -	\$ 11,656	\$ -	\$ -
Note 1 - Electric Fund	131,808	-	131,808	-	-
Note - DPW truck	15,662	-	15,662	-	-
Note - GIS system	12,000	-	12,000	-	-
Compensated absences	143,832	20,493	-	164,325	32,865
<b>Total governmental long-term debt</b>	<b>\$ 314,958</b>	<b>\$ 20,493</b>	<b>\$ 171,126</b>	<b>\$ 164,325</b>	<b>\$ 32,865</b>

Type of Debt	Balance April 1, 2015	Additions	Deductions	Balance March 31, 2016	Amounts Due Within One Year
<b>Business-type Activities:</b>					
Note - utility software	\$ 37,486	\$ -	\$ 37,486	\$ -	\$ -
Note 2 - Electric Fund	87,578	-	87,578	-	-
Note 3 - Electric Fund	141,876	-	141,876	-	-
Note 4 - Electric Fund	84,745	-	84,745	-	-
2006 Sludge Storage bond	745,718	-	55,000	690,718	55,000
Compensated absences	130,381	2,758	-	133,139	26,628
<b>Total business-type long-term debt</b>	<b>\$1,227,784</b>	<b>\$ 2,758</b>	<b>\$ 406,685</b>	<b>\$ 823,857</b>	<b>\$ 81,628</b>

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE F – LONG-TERM DEBT (continued)**

Debt service requirements on long-term debt at March 31, 2016 are as follows:

For the Year Ending March 31,	Governmental Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2017	\$ -	\$ -	\$ -	\$ -
2018	-	-	-	-
2019	-	-	-	-
2020	-	-	-	-
2021	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

For the Year Ending March 31,	Business-type Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2017	\$ -	\$ -	\$ 55,000	\$ 11,224
2018	-	-	55,000	10,330
2019	-	-	55,000	9,437
2020	-	-	55,000	8,542
2021	-	-	55,000	7,649
2021-2026	-	-	295,000	24,352
2027-2028	-	-	120,718	2,948
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 690,718</u>	<u>\$ 74,482</u>

**Governmental Activities:**

As of March 31, 2016, the governmental activities long-term debt consisted of the following:

**Notes Payable:**

Note 1 – Electric Fund - During the year ended March 31, 2011, the City refinanced the campground bathroom and electric upgrade notes in the amount of \$213,851 through the Electric Fund. The note calls for annual principal and interest payments over 10 years and bears an interest rate of 2%. These payments are made from the City's General Fund. During the year ended March 31, 2016, the City Commission forgave this note.

## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

#### **NOTE F – LONG-TERM DEBT (continued)**

During the year ended March 31, 2014, the City signed an 84 month note which was used to purchase a truck. The note calls for monthly principal and interest payments of \$264 and bears an interest rate of 2.2%. During the year ended March 31, 2016, the City Commission paid off this note early.

During the year ended March 31, 2013, the City signed a 72 month note which was used to purchase GIS software. The note calls for annual principal payments of \$6,000 and bears an interest rate of 0%. During the year ended March 31, 2016, the City Commission paid off this note early.

Note 5 – Electric Fund - During the year ended March 31, 2015, the City purchased a Kubota tractor and financed part of the purchase through the Electric Fund in the amount of \$11,656. The note calls for annual principal and interest payments over 3 years and bears an interest rate of 2%. These payments are made from the City's General Fund. During the year ended March 31, 2016, the City Commission forgave this note.

#### **Business-type Activities:**

As of March 31, 2016, the long-term debt of business-type activities consists of the following:

#### **Note Payable:**

Note 2 – Electric Fund - During the year ended March 31, 2012, the City purchased new garbage cans as part of automating garbage collection within the City and financed them through the Electric Fund in the amount of \$121,525. The note calls for monthly principal and interest payments over 10 years and bears an interest rate of 2%. These payments are made from the Solid Waste Fund, which was converted from a special revenue fund to an enterprise fund in 2014, therefore the debt was reclassified from governmental activities to business-type activities. During the year ended March 31, 2016, the City Commission forgave this note.

Note 3 – Electric Fund - During the year ended March 31, 2012, the City purchased a new garbage truck as part of automating garbage collection within the City and financed it through the Electric Fund in the amount of \$196,870. The note calls for annual principal and interest payments over 10 years and bears an interest rate of 2%. These payments are made from the Solid Waste Fund, which was converted from a special revenue fund to an enterprise fund in 2014, therefore the debt was reclassified from governmental activities to business-type activities. During the year ended March 31, 2016, the City Commission forgave this note.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE F – LONG-TERM DEBT (continued)**

Note 4 – Electric Fund - During the year ended March 31, 2014, the City purchased a new dock system for the harbor and financed the City's share of the project cost through the Electric Fund in the amount of \$104,903. The note calls for annual principal and interest payments of \$22,256 over 5 years and bears an interest rate of 2%. These payments are made from the Harbor Fund. During the year ended March 31, 2016, the City Commission forgave this note.

During the year ended March 31, 2013, the City signed a 120 month note which was used to purchase utility billing software. The note calls for monthly principal payments of \$395 and bears an interest rate of 0%. During the year ended March 31, 2016, the City Commission paid off this note early.

Bonds Payable:

**2006 Sewage Disposal System Bonds** – On December 14, 2006 the City issued sewage disposal system revenue bond series 2006 for the purpose of constructing a sludge storage tank for the waste water department. The bonds were issued to the Michigan Municipal Bond Authority in the amount of \$1,090,718 and have an interest rate of 1.625%. Interest payments are due and payable each April 1 and October 1. Principal payments are due each October 1 with the final principal payment due no later than October 1, 2027. The bonds are in the form of a single fully-registered, nonconvertible bond of the denomination of the full principal amount.

**NOTE G – VESTED EMPLOYEE BENEFITS**

Substantially all City employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on various union and employment agreements. Vacation pay is not subject to accumulations beyond a one-year period. Sick pay accumulations become vested as a result of employee age and years of employment. Compensated absences in the amount of \$164,325 are reported under governmental activities and \$133,139 is reported under business-type activities in the Statement of Net Position. For governmental activities, compensated absences are liquidated by the fund the employee's regular payroll is charged to.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE H – INTERFUND BALANCES AND TRANSFERS**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Interfund receivables have been classified as noncurrent assets and liabilities in the Statement of Net Position due to the individual funds inability to repay these amounts. Individual fund interfund receivables and payable balances at March 31, 2016 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
		General Fund	\$ 158,662
		Major Street Fund	46,013
		Local Street Fund	<u>19,889</u>
Electric Fund	<u>\$ 224,564</u>	Total	<u>\$ 224,564</u>

Financial Statement Presentation:

Governmental Funds	-	Governmental Funds	224,564
Enterprise Funds	224,564	Enterprise Funds	-
Internal Service Funds	<u>-</u>	Internal Service Funds	<u>-</u>
	<u>\$ 224,564</u>		<u>\$ 224,564</u>

The interfund receivables are not expected to be repaid within the next fiscal year.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE H – INTERFUND BALANCES AND TRANSFERS (continued)**

The transfers to and from the various funds are made to account for budgetary authorizations and/or provide funding for operations as needed. Interfund transfers for the year ended March 31, 2016 were as follows:

		<b>TRANSFERS IN</b>			
<b>TRANSFERS (OUT)</b>		<b>General</b>	<b>Nonmajor Govern.</b>	<b>Waste Water</b>	<b>Water</b>
	General	\$ -	\$ 4,441	\$ -	\$ -
	Nonmajor Govern.	158,550	60,000	-	60,000
	Electric	157,884	11,000	799	799
	Waste Water	68,010	5,000	-	-
	Water	66,427	5,000	-	-
	Solid Waste	12,805	-	-	-
	Nonmajor Enter.	6,297	-	-	-
	Internal Service	-	-	-	-
	<b>Total</b>	<b>\$ 469,973</b>	<b>\$ 85,441</b>	<b>\$ 799</b>	<b>\$ 60,799</b>

		<b>TRANSFERS IN (continued)</b>			
<b>TRANSFERS (OUT)</b>		<b>Solid Waste</b>	<b>Nonmajor Enterprise</b>	<b>Internal Service</b>	<b>Total</b>
	General	\$ -	\$ -	\$ 4,582	\$ 9,023
	Nonmajor Govern.	-	-	9,314	287,864
	Electric	211,725	84,745	203,656	670,608
	Waste Water	-	-	5,239	78,249
	Water	-	-	5,239	76,666
	Solid Waste	-	-	6,780	19,585
	Nonmajor Enter.	-	-	-	6,297
	Internal Service	-	-	-	-
	<b>Total</b>	<b>\$ 211,725</b>	<b>\$ 84,745</b>	<b>\$ 234,810</b>	<b>\$ 1,148,292</b>

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

**NOTE I – RETIREMENT PLANS**

**MUNICIPAL EMPLOYEE'S RETIREMENT SYSTEM**

Description of Plan and Plan Assets

The City is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.5% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2015.

General Information about the Pension Plan

*Plan Description.* The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

	Divisions - For the 2015 Valuation			
	01-General Closed	02-Pic/Fire Closed	10-General Supervisor Closed	20-Pub Safety Comm Officers Closed
Benefit Multiplier:	2.5%-80% max	2.5%-80% max	2.5%-80% max	2.5%-80% max
Normal Retirement Age:	60	60	60	60
Vesting:	10 years	10 years	10 years	10 years
Early Retirement (unreduced):	55/25	25 and out	55/20, 25 and out	25 and out
Early Retirement (reduced):	50/25, 55/15	55/15	55/15	55/15
Final Average Compensation:	5 years	3 years	3 years	3 years
Employee Contributions:	1%	3%	0%	1%
DC Plan for New Hires:	1/1/1998	1/1/2009	1/1/1998	unknown
Act 88:	No	No	No	No

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

NOTE I – RETIREMENT PLANS (continued)

Employees Covered by Benefit Terms

At December 31, 2015 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>38</u>
	54

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The City is required to contribute at an actuarially determined rate.

The contribution rate as a monthly dollar amount or percent of pay contribution at March 31, 2016 is as follows:

01 - General	\$19,714
02 - Police/Fire	\$18,831
10 - General Supervisor	\$30,548
20 - Public Safety Comm Officers	32.13%

Net Pension Liability

The City's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.75 percent, average, including inflation
Investment rate of return	7.75 percent



## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

#### NOTE I – RETIREMENT PLANS (continued)

Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates were based on a blend of the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent; RP-2014 Employee Mortality Tables; and RP-2014 Juvenile Mortality Tables all with a 50 percent male and 50 percent female blend. For disabled retirees, the RP-2014 Disabled Retiree Mortality Table with a 50 percent male and 50 percent female blend is used to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of the most recent actuarial experience study covering the period from January 1n 2009 through December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	8.5%
Global Fixed Income	20.0%	5.7%
Real Assets	12.5%	7.7%
Diversifying Strategies	10.0%	10.0%

*Discount Rate.* The discount rate used to measure the total pension liability is 8.00% for 2015. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE I – RETIREMENT PLANS (continued)**

**Changes in the Net Pension Liability:**

	<b>Increases (Decreases)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
<b>Balances at December 31, 2014</b>	<b>\$ 11,931,915</b>	<b>\$ 5,677,689</b>	<b>\$ 6,254,226</b>
Service cost	84,917	-	84,917
Interest on total pension liability	953,137	-	953,137
Changes in benefits	3,739	-	3,739
Difference between expected and actual experience	(30,084)	-	(30,084)
Changes in assumptions	523,082	-	523,082
Employer contributions	-	642,574	(642,574)
Employee contributions	-	12,492	(12,492)
Net investment income	-	(83,968)	83,968
Benefit payments, including employee refunds	(842,391)	(842,391)	-
Administrative expense	-	(12,265)	12,265
Other changes	-	-	-
<b>Net changes</b>	<b>692,400</b>	<b>(283,558)</b>	<b>975,958</b>
<b>Balances as of December 31, 2015</b>	<b>\$ 12,624,315</b>	<b>\$ 5,394,131</b>	<b>\$ 7,230,184</b>

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the City, calculated using the discount rate of 8.00% , as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	<b>1% Decrease 7.00%</b>	<b>Current Discount Rate 8.00%</b>	<b>1% Increase 9.00%</b>
City's change in net pension liability at 12/31/15	\$1,272,468	\$-	(\$1,088,396)

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

**NOTE I – RETIREMENT PLANS (continued)**

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued MERS financial report.

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended March 31, 2016, the City recognized pension expense of \$1,194,372. At March 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	424,160	-
Contributions subsequent to the measurement date *	<u>168,714</u>	<u>-</u>
Total	<u>\$ 592,874</u>	<u>\$ -</u>

\* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for the year ending March 31, 2017.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recorded in pension expense as follows:

<u>Year Ended March 31:</u>		
2017	\$	106,040
2018		106,040
2019		106,040
2020		106,040

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE I – RETIREMENT PLANS (continued)**

**Annual Pension Cost**

During the year ended March 31, 2016, the City's contributions totaling \$674,856 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2014. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 7.75 percent and annual salary increases of 3.75 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 24 years.

**401 (A) RETIREMENT PLAN**

During the year ended March 31, 1998, the City adopted a qualified defined contribution retirement plan in accordance to section 401 (A) of the Internal Revenue Code, which is administered by the International City/County Management Association. Employees who are hired after December 1, 1997, with the exception of the employees who are members of the POLC union, are eligible to participate in the plan, which requires the City to contribute 8% of the employee's gross wage to the plan. In fiscal year 2010, all new hires of the POLC union are also included in this retirement plan. In addition, if the employee contributes an additional 3.0% to the plan the City will match the employee contribution of 3%. All contributions are held and owned in the name of each employee.

<u>Year Ended</u> <u>March 31,</u>	<u>Number of</u> <u>Participants</u>	<u>City's</u> <u>Share</u>	<u>Employee's</u> <u>Share</u>
2013	26	\$113,393	\$ 31,051
2014	24	127,136	34,811
2015	26	130,467	35,710
2016	26	141,221	38,330

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

**NOTE J – OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

*Plan Description* - The City provides certain employees with post retirement health benefits. These benefits were negotiated through union contracts for the P.O.L.C. and Teamsters union contracts and approved separately for the Supervisors group, a non-union group.

The P.O.L.C. contract requires the City to pay the monthly health insurance premium for employees who retired between April 1, 2001 and April 1, 2011 until the age of 65, or for 6 years, whichever is less. For P.O.L.C. members who retire after April 1, 2011 the City will pay the monthly premium for health insurance for 6 years or until the age of 65, whichever is less. Any increase in the monthly premiums after the date of retirement shall be borne by the City for years 1-5 and years 6-12 will be covered by the retired employee. The Teamsters contract does not provide a provision for post employment health benefits. The City has agreed to provide the Supervisors group with post employment health benefits for a period of 10 years or until the age of 65, whichever comes first for those employees hired prior to March 31, 2008. Supervisory employees hired after that date are not eligible for post employment health benefits. All premium increases during that period of time will be covered by the City. As of March 31, 2016, the City Plan had 12 active plan members and 17 retirees and beneficiaries receiving benefits.

*Funding Policy* – For the year ended March 31, 2016 the City has not established a Trust to fund the OPEB obligation. The City's funding policy is to pay all premiums as they come due on a pay-as-you-go basis. For fiscal year 2016, the City contributed \$234,925 to the plan. Plan members are not required to make contributions to the Plan.

*Annual OPEB Cost and Net OPEB Obligation* – The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's annual net OPEB obligation to the Retiree Health Plan:

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

**NOTE J – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)**

Annual required contribution	\$ 190,860
Interest on net OPEB obligation	74,997
Adjustment to annual required contribution	<u>(58,798)</u>
Annual OPEB cost (expense)	207,059
Contributions made	<u>(234,925)</u>
Increase in net OPEB obligation	(27,866)
Net OPEB obligation - beginning of year	<u>1,071,381</u>
Net OPEB obligation - end of year	<u><u>\$1,043,515</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contribution</u>	<u>Net OPEB Obligation</u>
2013	\$ 328,881	57%	\$ 796,436
2014	327,345	51%	957,248
2015	325,606	65%	1,071,381
2016	207,056	113%	1,043,515

*Funded Status and Funding Progress* – As of April 1, 2015, the actuarial accrued liability for benefits was \$2,489,098, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was unavailable, and the ratio of the unfunded actuarial accrued liability to the covered payroll was unavailable.

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following these notes, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

**NOTE J – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (continued)**

*Actuarial Methods and Assumptions* – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the April 1, 2015 actuarial valuation, the alternative method as provided under GASB Statement No. 45 was used, which incorporated the entry age cost method. The actuarial assumptions include a 7.0% post retirement interest rate, a discount rate of 7.0%, projected salary increases of 3.0% and healthcare inflation rates which are based on NIH National Health Expenditures Table 3, 2008 – 2024.

**NOTE K – FUND BALANCE/RESTRICTED NET ASSETS**

As of March 31, 2016, fund balances are composed of the following:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total Funds</u>
<b>Nonspendable:</b>			
Prepaid items	\$ 40,776	\$ -	\$ 40,776
Permanent fund principal	-	265,087	265,087
<b>Restricted for:</b>			
Street system	-	460,469	460,469
Health & welfare	-	29,728	29,728
Community development	-	418,458	418,458
Downtown development	-	112,543	112,543
<b>Committed to:</b>			
Public safety	164,418	-	164,418
Recreation & culture	-	96,163	96,163
<b>Unassigned:</b>	<u>703,803</u>	<u>-</u>	<u>703,803</u>
<b>Total fund balance</b>	<u>\$ 908,997</u>	<u>\$ 1,382,448</u>	<u>\$ 2,291,445</u>

Specific purposes of the nonmajor funds are presented in the combining governmental financial statements that follow the footnotes.

Total net position which is restricted by enabling legislation amounted to \$1,021,198 for governmental activities.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE L – RISK MANAGEMENT**

The City of Gladstone participates as a member of the Michigan Municipal Risk Management Authority. The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage, and property.

This summarizes certain obligations of MMRMA and the City. Except for specific coverage limits and the City's Self Insured Retention (hereinafter the "SIR") and deductibles contained in this Coverage Overview, the provisions of the Joint Powers Agreement, Coverage Documents, MMRMA rules, regulations, and administrative procedures shall prevail in any dispute. The City agrees that any dispute between the City and MMRMA will be resolved in the manner stated in the Joint Powers Agreement and MMRMA rules.

City Obligations – City of Gladstone is responsible to pay all costs, including damages, indemnification, and allocated loss adjustment expenses for each occurrence that is within the City's SIR. City of Gladstone's SIR and deductibles are as follows:

**Table I**  
**City Deductibles and Self Insured Retentions**

<b>COVERAGE</b>	<b>DEDUCTIBLE</b>	<b>SELF INSURED RETENTION</b>
1. Liability	None	State Pool Member
2. Vehicle Physical Damage	\$250/Vehicle	State Pool Member
3. Property & Crime	\$1,000/Occurrence	N/A
4. Fire/EMS Replacement Cost	\$1,000/Occurrence	N/A
5. Sewage System Overflow	\$0/Occurrence	N/A

The City must satisfy all deductibles before any payments are made from the City's SIR or by MMRMA.



## CITY OF GLADSTONE, MICHIGAN

### NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

#### **NOTE L – RISK MANAGEMENT (continued)**

All costs including damages and allocated loss adjustment expenses are on an occurrence basis and must be paid first from the City's SIR. The City's SIR and deductibles must be satisfied fully before MMRMA will be responsible for any payments. The most MMRMA will pay is the difference between the City's SIR and the Limits of Coverage stated in the Coverage Overview. City of Gladstone agrees to maintain, at all times, on account with MMRMA sufficient funds to pay its SIR obligations. The City agrees to abide by all MMRMA rules, regulations, and administrative procedures pertaining to the City's SIR.

MMRMA Obligations – After the City's SIR and deductibles have been satisfied, MMRMA will be responsible for paying all remaining costs, including damages, indemnification, and allocated loss adjustment expenses up to limits established per agreement between the City and MMRMA.

At March 31, 2016, the City had no outstanding claims which exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years.

#### **NOTE M – CONTINGENT LIABILITIES**

The City has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion on management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the City at March 31, 2016.

#### **NOTE N – JOINT VENTURE – DELTA SOLID WASTE LANDFILL**

The Delta Solid Waste Management Authority was incorporated in 1984, pursuant to Act 233, Public Acts of Michigan, 1955, by the County of Delta and the local units of government within the County. It was established in order to provide for a new landfill since the current county-wide site, owned by the City of Gladstone, was approaching saturation.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

**NOTE N – JOINT VENTURE – DELTA SOLID WASTE LANDFILL (continued)**

The Authority is governed by a seven-person Board of Directors, composed of three representatives of the participating townships, three representatives of the participating cities and one member of the Delta County Board of Commissioners. The three members of the Authority Board from the villages and townships will be selected by and from a body composed of one representative from each such township or village; the three board members of the cities shall be selected by and from a body composed of two representatives from each such city; and the member of the Delta County Board of Commissioners shall be chosen by said Board of Commissioners after review of recommendations by the Townships, Villages and City representatives. The Authority as described herein has no taxing power.

The following local governmental units are participants in the Authority; shown with their respective percentage shares in the Authority:

<u>Local Governmental Unit</u>	<u>Percentage Share</u>
Delta County	51.8%
City of Escanaba	18.6%
City of Gladstone	5.9%
Local Townships	23.7%
	<u>100.0%</u>

Operation and maintenance costs are paid out of tipping fees assessed against users of the landfill. Parties that use the landfill include the municipal sanitation systems of the cities of Escanaba and Gladstone, and private solid waste companies serving the local units. The landfill began operation in December 1985. Currently City management feels the landfill does not pose any additional financial burden or benefit on the City. Financial information of the Delta Solid Waste Management Authority and Recycling Program is available at their administrative office located at 5701 19<sup>th</sup> Avenue North, Escanaba, MI 49829.

**NOTE O – SINGLE AUDIT**

For the year ended March 31, 2016, the City did not expend more than \$750,000 in federal awards and therefore a single audit in accordance with Uniform Guidance was not required in 2016.

CITY OF GLADSTONE, MICHIGAN

NOTES TO BASIC FINANCIAL STATEMENTS

March 31, 2016

**NOTE P – FUTURE CHANGES IN ACCOUNTING PRINCIPLE**

In February 2015, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirement of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2016-2017 fiscal year.

The Governmental Accounting Standards Board (GASB) issued two new pronouncements in June 2015, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which will enhance the note disclosures and schedules of required supplementary information for Other Postemployment Benefit Plans (OPEB). GASB Statement No. 74 will provide information about measures of net OPEB liabilities and an analysis of why those liabilities change from year to year. GASB Statement No. 75 establishes standards for governmental employer recognition, measurement, and presentation of information about OPEB plans. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. GASB Statement No. 74 will be effective for fiscal years beginning after June 15, 2016 and GASB Statement No. 75 will be effective for fiscal years beginning after June 15, 2017. The City is currently evaluating the impact these standards will have on the financial statements when adopted.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement will require governments to disclose in their financial statements information related to tax abatement agreements. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

**CITY OF GLADSTONE, MICHIGAN**

**NOTES TO BASIC FINANCIAL STATEMENTS**

March 31, 2016

**NOTE Q - CHANGE IN PRESENTATION**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that is recorded on the government-wide, proprietary, and discretely presented component unit statements is computed differently than the previously reported unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The provisions of this statement were adopted for the 2016 fiscal year.

**NOTE R – PRIOR PERIOD ADJUSTMENT**

A prior period adjustment was made in the Governmental Activities and discretely presented component unit related to the implementation of GASB Statement 68 as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Beginning net position, as previously reported on March 31, 2015	\$ 7,721,815	\$ 13,351,625
Prior period adjustment - implementation of GASB 68		
Net pension liability (measurement date)	<u>(4,294,297)</u>	<u>(1,821,193)</u>
Net position, as restated on April 1, 2015	<u>\$ 3,427,518</u>	<u>\$ 11,530,432</u>

**NOTE S – SUBSEQUENT EVENTS**

During June 2016, the City terminated its contract with the City Manager. As a result of the termination, the City settled on a severance payment of \$53,664 during September 2016.

## REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF GLADSTONE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended March 31, 2016**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget-
	Original	Final	(See Note A)	Positive (Negative)
<b>REVENUES:</b>				
Federal sources	\$ -	\$ -	\$ -	\$ -
State sources	499,896	499,896	491,723	(8,173)
Local sources	70,150	91,281	78,073	(13,208)
Taxes	1,529,101	1,740,405	1,602,808	(137,597)
Charges for services	289,950	318,694	287,443	(31,251)
Interest income	3,800	3,800	2,802	(998)
Miscellaneous	141,723	675,229	432,196	(243,033)
Total revenues	2,534,620	3,329,305	2,895,045	(434,260)
<b>EXPENDITURES:</b>				
General government:				
City commission	500,940	511,665	516,156	(4,491)
City manager	127,310	129,740	129,456	284
Elections	11,700	13,705	11,179	2,526
City assessor	47,190	50,459	54,100	(3,641)
Board of review	2,553	2,553	2,620	(67)
City treasurer	80,350	84,016	84,336	(320)
City clerk	93,520	96,385	95,979	406
City hall	31,797	31,797	24,596	7,201
Computer & Copier	24,000	24,000	26,710	(2,710)
Public health and safety:				
Police department	1,157,820	1,157,125	1,027,918	129,207
Fire department	127,130	128,630	108,959	19,671
Building and housing inspections	128,294	128,294	98,348	29,946
Parks and recreation:				
Recreation administrative	146,720	154,720	157,552	(2,832)
Parks	66,800	78,100	75,220	2,880
Beach	29,210	29,210	28,091	1,119
Sports park	103,950	103,950	62,242	41,708
Campground	52,070	52,070	64,584	(12,514)
Miscellaneous	56,242	56,242	46,047	10,195
Cemetery:				
Cemetery administrative	14,536	14,536	16,812	(2,276)
Ground maintenance and burials	45,395	68,750	80,552	(11,802)
General public works:				
Sidewalks & alley maintenance	6,873	6,873	-	6,873
Grounds maintenance	17,132	17,132	10,416	6,716
Capital outlay	135,000	604,448	420,209	184,239
Debt service	24,000	24,000	-	24,000
Total expenditures	3,030,532	3,568,400	3,142,082	426,318
Excess revenues (expenditures)	(495,912)	(239,095)	(247,037)	(7,942)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	507,956	457,956	469,973	12,017
Transfer out	(12,044)	(218,861)	(9,023)	209,838
Total other financing sources (uses)	495,912	239,095	460,950	221,855
Net changes in fund balances	-	-	213,913	213,913
Fund balances - beginning	695,084	695,084	695,084	-
Fund balances - ending	\$ 695,084	\$ 695,084	\$ 908,997	\$ 213,913

**CITY OF GLADSTONE, MICHIGAN**

**SCHEDULE OF FUNDING PROGRESS FOR THE**

**OTHER POST-EMPLOYMENT BENEFITS**

**March 31, 2016**

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b - a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	( c ) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
04/01/09	\$ -	\$ 4,245,147	\$ 4,247,147	0%	Not Available	-
04/01/12	-	4,076,657	4,076,657	0%	Not Available	-
04/01/15	2,317	2,491,415	2,489,098	0%	Not Available	-

**CITY OF GLADSTONE, MICHIGAN**  
**EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**  
**SCHEDULE OF FUNDING PROGRESS**  
**For the Year Ended March 31, 2016**  
(Schedule is prepared prospectively upon implementation of GASB 68)

	2016
<b>Total pension liability</b>	
Service cost	\$ 84,917
Interest	953,137
Change in benefits	3,739
Difference between expected and actual experience	(30,084)
Change in assumptions	523,082
Benefit payments, including refund of member contributions	(842,391)
Other	-
<b>Net change in total pension liability</b>	<b>692,400</b>
<b>Total pension liability - beginning</b>	<b>11,931,915</b>
<b>Total pension liability - ending</b>	<b>\$ 12,624,315</b>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 642,574
Contributions - employee	12,492
Net investment income	(83,968)
Benefit payments, including refunds of member contributions	(842,391)
Administrative expense	(12,265)
<b>Net change in plan fiduciary net position</b>	<b>(283,558)</b>
<b>Plan fiduciary net position - beginning</b>	<b>5,677,689</b>
<b>Plan fiduciary net position - ending</b>	<b>\$ 5,394,131</b>
<b>City's net pension liability - ending</b>	<b>\$ 7,230,184</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>43%</b>
<b>Covered - employee payroll</b>	<b>\$ 760,520</b>
<b>City's net pension liability as a percentage of covered-employee payroll</b>	<b>951%</b>
<b>Annual money-weighted rate of return, net of investment expense</b>	<b>-2%</b>



**CITY OF GLADSTONE, MICHIGAN  
EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS  
SCHEDULE OF FUNDING PROGRESS  
For the Year Ended March 31, 2016**

	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 674,856	\$ 545,395
Contributions in relation to the actuarially determined contribution	<u>674,856</u>	<u>545,395</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 760,520	\$ 726,599
Contributions as a percentage of covered-employee payroll	89%	75%

**Notes to Schedule:**

Actuarially determined contribution rates are calculated as of December 31st, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	24 years
Asset valuation method	10-years smoothed market
Inflation	2.50%
Salary increases	3.75%, average, including inflation
Investment rate of return	7.75%
Retirement age	50-60 years of age depending on years of credited service
Mortality	50% Female/50% Male blend of RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%; RP-2014 Employee Mortality Tables; and RP-2014 Juvenile Mortality Tables

**COMBINING FUND FINANCIAL STATEMENTS**

**CITY OF GLADSTONE, MICHIGAN  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
March 31, 2016**

	Special Revenue Funds				
	Major Street	Local Street	State Trunkline	MSHDA Rental Property MSC-11-0717	MSHDA Homeowner
<b>ASSETS</b>					
Cash and equivalents:					
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -
Unrestricted	256,052	156,043	-	3,390	26,338
Receivables:					
Special assessments	15,165	5,190	-	-	-
Due from other governmental units	76,587	29,821	-	-	-
<b>Total assets</b>	<u>\$ 347,804</u>	<u>\$ 191,054</u>	<u>\$ -</u>	<u>\$ 3,390</u>	<u>\$ 26,338</u>
<b>LIABILITIES</b>					
Liabilities:					
Accounts payable	\$ 4,769	\$ 1,837	\$ -	\$ -	\$ -
Accrued payroll	3,413	2,468	-	-	-
Due to other funds	46,013	19,889	-	-	-
Unearned revenue	-	-	-	-	-
<b>Total liabilities</b>	<u>54,195</u>	<u>24,194</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
Nonspendable	-	-	-	-	-
Restricted	293,609	166,860	-	3,390	26,338
Committed	-	-	-	-	-
<b>Total fund balances</b>	<u>293,609</u>	<u>166,860</u>	<u>-</u>	<u>3,390</u>	<u>26,338</u>
<b>Total liabilities, and fund balances</b>	<u>\$ 347,804</u>	<u>\$ 191,054</u>	<u>\$ -</u>	<u>\$ 3,390</u>	<u>\$ 26,338</u>

See accompanying notes to financial statements.

<u>Special Revenue Funds</u>		<u>Capital Projects Fund</u>	<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Mary Crerens Trust</u>	<u>Downtown Development Authority</u>	<u>Capital Projects</u>	<u>Cemetery Perpetual Care</u>	
\$ 418,458	\$ -	\$ -	\$ -	\$ 418,458
-	118,150	96,445	265,087	921,505
-	-	-	-	20,355
-	-	-	-	106,408
<u>\$ 418,458</u>	<u>\$ 118,150</u>	<u>\$ 96,445</u>	<u>\$ 265,087</u>	<u>\$ 1,466,726</u>
\$ -	\$ 4,542	\$ 22	\$ -	\$ 11,170
-	942	260	-	7,083
-	-	-	-	65,902
-	123	-	-	123
-	5,607	282	-	84,278
-	-	-	265,087	265,087
418,458	112,543	-	-	1,021,198
-	-	96,163	-	96,163
<u>418,458</u>	<u>112,543</u>	<u>96,163</u>	<u>265,087</u>	<u>1,382,448</u>
<u>\$ 418,458</u>	<u>\$ 118,150</u>	<u>\$ 96,445</u>	<u>\$ 265,087</u>	<u>\$ 1,466,726</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended March 31, 2016**

	Special Revenue Funds				
	Major Street	Local Street	State Trunkline	MSHDA Rental Property MSC-11-0717	MSHDA Homeowner
<b>REVENUES:</b>					
State sources	\$ 389,251	\$ 181,352	\$ 6,435	\$ -	\$ -
Local sources	-	-	-	-	-
Taxes	-	-	-	-	-
Lease income	-	-	-	-	-
Interest income	-	-	-	-	-
Miscellaneous	2,634	4	-	-	-
<b>Total revenues</b>	<b>\$ 391,885</b>	<b>\$ 181,356</b>	<b>\$ 6,435</b>	<b>\$ -</b>	<b>\$ -</b>
<b>EXPENDITURES:</b>					
General government	\$ -	\$ -	\$ -	\$ -	\$ -
Parks an recreation	-	-	-	-	-
Cemetery	-	-	-	-	-
Street system	259,664	200,119	5,588	-	-
Community development	-	-	-	-	-
Capital outlay	10,664	-	-	-	-
<b>Total expenditures</b>	<b>270,328</b>	<b>200,119</b>	<b>5,588</b>	<b>-</b>	<b>-</b>
<b>Excess revenues (expenditures)</b>	<b>121,557</b>	<b>(18,763)</b>	<b>847</b>	<b>-</b>	<b>-</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	-	50,000	-	-	-
Transfers out	(57,157)	(7,157)	(847)	-	-
<b>Total other financing sources (uses)</b>	<b>(57,157)</b>	<b>42,843</b>	<b>(847)</b>	<b>-</b>	<b>-</b>
<b>Net changes in fund balances</b>	<b>64,400</b>	<b>24,080</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances - beginning</b>	<b>229,209</b>	<b>142,780</b>	<b>-</b>	<b>3,390</b>	<b>26,338</b>
<b>Fund balances - ending</b>	<b>\$ 293,609</b>	<b>\$ 166,860</b>	<b>\$ -</b>	<b>\$ 3,390</b>	<b>\$ 26,338</b>

See accompanying notes to financial statements.

Special Revenue Funds		Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
Mary Cretens Trust	Downtown Development Authority	Capital Projects	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ -	\$ 577,038
179,333	24,713	250,000	4,835	458,881
-	255,961	-	-	255,961
-	1,200	-	-	1,200
1,490	780	-	1,022	3,292
-	7,616	-	-	10,254
<u>\$ 180,823</u>	<u>\$ 290,270</u>	<u>\$ 250,000</u>	<u>\$ 5,857</u>	<u>\$ 1,306,626</u>
 \$ -	 \$ -	 \$ 35,441	 \$ -	 \$ 35,441
-	-	8,757	-	8,757
-	-	-	275	275
-	-	-	-	465,371
-	190,005	-	-	190,005
-	27,678	205,127	-	243,469
-	217,683	249,325	275	943,318
180,823	72,587	675	5,582	363,308
-	-	35,441	-	85,441
(131,681)	(90,000)	-	(1,022)	(287,864)
(131,681)	(90,000)	35,441	(1,022)	(202,423)
49,142	(17,413)	36,116	4,560	160,885
369,316	129,956	60,047	260,527	1,221,563
<u>\$ 418,458</u>	<u>\$ 112,543</u>	<u>\$ 96,163</u>	<u>\$ 265,087</u>	<u>\$ 1,382,448</u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING STATEMENT OF NET POSITION**  
**NONMAJOR PROPRIETARY FUNDS**  
**March 31, 2016**

	Economic Development Corporation	Harbor	Total Nonmajor Enterprise Funds
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 209,144	\$ 108,173	\$ 317,317
Receivables:			
Accounts	-	753	753
Total current assets	<u>209,144</u>	<u>108,926</u>	<u>318,070</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	<u>25,558</u>	<u>380,125</u>	<u>405,683</u>
Total noncurrent assets	<u>25,558</u>	<u>380,125</u>	<u>405,683</u>
Total assets	<u><u>\$ 234,702</u></u>	<u><u>\$ 489,051</u></u>	<u><u>\$ 723,753</u></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflow - pension plan	<u>-</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ -	\$ 1,081	\$ 1,081
Unearned revenue	<u>-</u>	<u>23,290</u>	<u>23,290</u>
Total current liabilities	<u><u>\$ -</u></u>	<u><u>\$ 24,371</u></u>	<u><u>\$ 24,371</u></u>
<b>NET POSITION</b>			
Net investment in capital assets	\$ 25,558	\$ 380,125	\$ 405,683
Unrestricted	<u>209,144</u>	<u>84,555</u>	<u>293,699</u>
Total net position	<u><u>\$ 234,702</u></u>	<u><u>\$ 464,680</u></u>	<u><u>\$ 699,382</u></u>

See accompanying notes to financial statements.

**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**NONMAJOR PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2016**

	Economic Development Corporation	Harbor	Total Nonmajor Enterprise Funds
<b>OPERATING REVENUES:</b>			
Charges for services	\$ -	\$ 64,749	\$ 64,749
Miscellaneous	8,954	-	8,954
Total operating revenue	8,954	64,749	73,703
<b>OPERATING EXPENSES:</b>			
Salaries and fringes	-	9,452	9,452
Supplies	-	11,160	11,160
Contracted services	9,080	1,804	10,884
Utilities	-	10,013	10,013
Insurance	-	622	622
Depreciation	1,047	22,531	23,578
Miscellaneous	-	1,714	1,714
Total operating expenses	10,127	57,296	67,423
Operating income (loss)	(1,173)	7,453	6,280
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest income	-	48	48
Income (loss) before transfers, contributions and special items	(1,173)	7,501	6,328
Transfer in	-	84,745	84,745
Transfer out	(6,297)	-	(6,297)
Change in net position	(7,470)	92,246	84,776
Total net position - beginning	242,172	372,434	614,606
Total net position - ending	\$ 234,702	\$ 464,680	\$ 699,382

See accompanying notes to financial statements.



**CITY OF GLADSTONE, MICHIGAN**  
**COMBINING STATEMENT OF CASH FLOWS**  
**NONMAJOR PROPRIETARY FUNDS**  
**For the Year Ended March 31, 2016**

	Economic Development Corporation	Harbor	Total Nonmajor Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ -	\$ 64,749	\$ 64,749
Payments to suppliers	(9,080)	(20,502)	(29,582)
Payments for wages and related benefits	-	(9,468)	(9,468)
Other receipts (payments)	8,954	-	8,954
Net cash provided (used) by operating activities	(126)	34,779	34,653
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating transfers in (out)	(6,297)	-	(6,297)
Net cash provided (used) by noncapital financing activities	(6,297)	-	(6,297)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earnings	-	48	48
Net cash provided (used) by investing activities	-	48	48
Net increase (decrease) in cash and equivalents	(6,423)	34,827	28,404
Cash and equivalents, beginning of year	215,567	73,346	288,913
Cash and equivalents, end of year	\$ 209,144	\$ 108,173	\$ 317,317
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss)	\$ (1,173)	\$ 7,453	\$ 6,280
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,047	22,531	23,578
Changes in assets and liabilities:			
Increase (decrease) in accounts payable	-	987	987
Increase (decrease) in accrued payroll	-	(16)	(16)
Increase (decrease) in unearned revenue	-	3,824	3,824
Net cash provided by operating activities	\$ (126)	\$ 34,779	\$ 34,653

See accompanying notes to financial statements.

CITY OF GLADSTONE, MICHIGAN  
ALL UTILITY FUNDS  
SCHEDULE OF OPERATING STATISTICS (UNAUDITED)  
For the Year Ended March 31, 2016

ALL UTILITIES:

Population served	4,973
Average number of meters in service	5,100

ELECTRIC UTILITY FUND:

K.W.H. purchased	31,740,824
K.W.H. sold	<u>29,692,614</u>
K.W.H. lost (6%)	<u>2,048,210</u>
Revenue from sales	<u>\$ 3,862,009</u>
Average number of meters	2,900

WATER UTILITY FUND:

Gallons pumped into plant	127,718,000
Gallons used in plant, system maintenance & let runs	<u>7,999,261</u>
Gallons pumped to mains	119,718,739
Gallons sold	<u>97,996,000</u>
Gallons lost (17%)	<u>21,722,739</u>
Revenue from sales	<u>\$ 732,129</u>
Average number of meters in service	2,200

WASTE WATER UTILITY FUND:

Revenue from sales	<u>\$ 686,643</u>
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**ANDERSON, TACKMAN & COMPANY, PLC**  
Certified Public Accountants

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal

OFFICES IN MICHIGAN AND WISCONSIN

Brandy M. Olson, CPA  
Gary E. Maynard, CPA, PFS  
Kathleen A. Ciantar, CPA

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS***

To the Mayor and Members  
of the City Commission  
City of Gladstone, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gladstone, Michigan, as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Gladstone, Michigan's basic financial statements and have issued our report thereon dated September 23, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Gladstone, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Gladstone, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Gladstone, Michigan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described below, that we consider to be a material weakness.

**2016-001 Deficiency:** Material audit adjustments were required to properly classify and record activity.

**Criteria:** The City is required to have internal controls in place to properly record, process and report accounting data.

**Condition:** Audit adjustments were required to properly classify and record activity to present the financial statements in accordance with generally accepted accounting principles.

**Cause:** This condition was caused by the City's decision to rely on the external auditor to recommend journal entries at year-end and by the City staff not reconciling activity recorded in the general ledger.

**Effect:** The City lacks internal controls over recording and reporting accounting data.

**Recommendation:** The City should record all journal entries necessary to materially record all financial activity prior to final trial balances being produced to be used for preparation of the year-end financial statements. Also, the City should reconcile activity throughout the year to ensure the year-end trial balances are correct.

**Management Response:** Staff has made improvements in the past year. We will continue to make every effort to properly accrue all revenue and expenditures and to properly classify activity.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Gladstone, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City of Gladstone, Michigan's Response to Findings**

City of Gladstone, Michigan's response to the findings identified in our audit is described above. City of Gladstone, Michigan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Anderson, Tackman & Company P.C.*

Anderson, Tackman & Company, PLC  
Esanaba, Michigan

September 23, 2016